



UMZIMVUBU
— LOCAL MUNICIPALITY —

ANNUAL FINANCIAL STATEMENTS

30 June 2011

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GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE AS AT 30 JUNE 2011

Mayor	Speaker	Chief Whip
KS Pangwa	ZO Sisilana	N Mbele
Members	Portfolio	
MV Nkqayi	Infrastructure and Planning	
VA Bulana	Community Services	
LT Qasha	Corporate Services	
Z Ndevu	Budget and Treasury	
EN Ngalonkulu - Lebelo	Communications and SPU	
N Mpumlwana	Local Economic Development	
N Nkula	Exco Member	
PK Thingathinga	Exco Member	

AUDITORS

Auditor-General
East London
Eastern Cape

BANKERS

First National Bank
Mount Frere

REGISTERED OFFICE

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Mount Frere

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Mount Frere
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MUNICIPAL MANAGER

Mr. G.P.T. Nota

CHIEF FINANCIAL OFFICER

Mr. M. Hloba

GENERAL INFORMATION (continued)

LEGAL FORM

Category B Municipality which operates in accordance with Chapter 7 of the Constitution of South Africa.

OBJECTIVES

The municipality strives, within its financial and administrative capacity, to achieve the following objects:

- to provide democratic and accountable government for local communities
- to ensure the provision of services to communities in a sustainable manner
- to promote social and economic development
- to promote a safe and healthy environment
- to encourage the involvement of communities and community organisations in the matters of local government

GRADING

Grade 3

JURISDICTION

Greater Umzimvubu area which includes:
Mount Frere, Mount Ayliff
and
various rural areas

2010/11

**MEMBERS OF THE UMZIMVUBU LOCAL MUNICIPALITY
COUNCILLORS**

WARD		PROPORTIONAL
1	M Mabhanya	N Nkula
2	AL Mwezula	EL Sishuba
3	MV Nkqayi	EN Ngalonkulu-Lebelo
4	MM Mpepanduku	N Mpumlawana
5	M Mpakumpaku	NE Pakkies
6	AZ Gwebani	T Mabindisa
7	NM Mlenzana	M Mataka
8	M Jojo	N Goqa
9	ZJ Mendu	N Boyce
10	V Nyangane	NO Godlo
11	N Gogela	LT Qasha
12	ZB Mtebele	B Mngweba
13	CT Ndawo	N Mpumlawana
14	BMA Zililo	UN Makanda
15	N Sonyabashi	EL Sishuba
16	SAN Cekeshe	LT Qasha
17	S Mankanku	EN Ngalonkulu-Lebelo
18	NT Xezu	ZO Sisilana
19	N Jijana	N Mbele
20	V Ngobaza	KS Phangwa
21	FN Ngonyolo	NN Gcadinja
22	CM Ngalonkulu	VA Bulana
23	BT Ngqasa	UN Makanda
24	MH Kwekwile	SK Mnukwa
25	NA Sobahle	Z Ndevu
26	NP Ndabeni	ZO Sisilana
27	S Nogcantsi	KS Phangwa

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 86 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr. G.P.T. Nota
Municipal Manager

Date

UMZIMVUBU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2011

REPORT OF THE CHIEF FINANCIAL OFFICER

1 INTRODUCTION

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

2 KEY FINANCIAL INDICATORS

The following indicators give some insight into the financial results of the year under review.

Financial Statement Ratios:

INDICATOR	2010/11	2009/10
Surplus / (Deficit) before Appropriations	19 419 955	4 597 488
Surplus / (Deficit) at the end of the Year	231 493 558	212 073 603
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	23.35%	24.65%
Remuneration of Councillors	8.30%	9.44%
Impairment Losses	4.07%	7.81%
Repairs and Maintenance	3.86%	7.83%
Interest Paid	0.10%	0.01%
General Expenses	42.99%	30.67%
Current Ratio:		
Creditors Days	38	56
Debtors Days	451	104

The Surplus / (Deficit) before Appropriations and the Surplus / (Deficit) at the end of the Year 2009/10 was restated because of previous years adjustments. Please refer to Correction of Error notes 28.1 and 28.2 to 28.5 for details.

Because of the adjustments the Ratio's above for 2009/10 financial year was also recalculated/stated.

3 OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D".

The overall operating results for the year ended 30 June 2011 are as follows:

DETAILS	Actual 2010/11 R	Actual 2009/10 R	Percentage Variance %	Budgeted 2010/11 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	212 073 603	330 862 714	(35.90)%	-	-
Operating income for the year	156 654 297	103 262 147	51.71%	202 086 295	(22.48)%
Appropriations for the year		20 049 665		-	-
	368 727 900	454 174 527	(18.81)%	202 086 295	82.46%
Expenditure:					
Operating expenditure for the year	137 234 341	98 664 660	39.09%	103 771 215	32.25%
Sundry transfers		143 436 264	(100.00)%	-	-
Closing surplus / (deficit)	231 493 558	212 073 603	9.16%	98 315 080	-
	368 727 899	454 174 527	(18.81)%	202 086 295	82.46%

The figures for the 2009/10 financial year was restated due to Correction of Errors as per note 28 to the financial statements and also to be in line with the Statement of Changes in Net Assets.

3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality. The main income sources are Assessment Rates, Refuse Disposal and Sundry Fees levied.

DETAILS	Actual 2010/11 R	Actual 2009/10 R	Percentage Variance %	Budgeted 2010/11 R	Variance actual/ budgeted %
Income	156 654 297	103 262 147	51.71%	202 086 295	(22.48)%
Expenditure	137 234 341	98 664 660	39.09%	103 771 215	32.25%
Surplus / (Deficit)	19 419 955	4 597 488	322.40%	98 315 080	-
Surplus / (Deficit) as % of total income	12.40%	4.45%		48.65%	

The Income and the Expenditure was restated because of previous years adjustments. Please refer to Correction of Error notes 28.2 to 28.5 for details.

3.2 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (solid waste/refuse). Income is mainly generated from the levying of fees and tariffs determined by the council.

The service currently falls under the Community Services cost centre which are also responsible for various other functions. This makes it not possible to report on the service as an economic unit.

4 FINANCING OF CAPITAL EXPENDITURE

The expenditure on Property, Plant and Equipment during the year amounted to R66808721 (2009/10: R31589155). Full details of Property, Plant and Equipment are disclosed in Note 7 and appendices B, C and E(2) to the Annual Financial Statements.

The capital expenditure of R66808721 was financed as follows:

DETAILS	Actual 2010/11 R	Actual 2009/10 R	Percentage Variance %	Budgeted 2010/11 R	Variance actual/ budgeted %
Grants and Subsidies	66 808 721	31 589 155	111.49%	98 315 080	(32.05)%
	66 808 721	31 589 155	111.49%	98 315 080	(32.05)%

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2010/11	2009/10
Grants and Subsidies	100.00%	100.00%

Property, Plant and Equipment is funded to such a great extent from grants and subsidies because the municipality does not have the financial resources to finance capital from its own funds.

5 RECONCILIATION OF BUDGET TO ACTUAL

5.1 Operating Budget:

DETAILS	2010/11	2009/10
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	98 315 080	58 764 801
Revenue variances	(45 431 998)	(21 268 183)
Expenditure variances:		
Employee Related Costs	13 890 763	4 407 264
Remuneration of Councillors	(1 161 748)	3 019 655
Bad debts	365 000	37 500
Depreciation and Amortisation	(22 930 196)	(19 121 715)
Repairs and Maintenance	(1 933 396)	(5 696 989)
Interest Paid	(135 788)	(8 292)
Contracted Services	-	-
Grants and Subsidies Paid	-	-
General Expenses	(15 589 823)	(7 829 538)
Actual surplus before appropriations	19 419 955	4 597 488

DETAILS	2010/11	2009/10
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	98 315 080	58 764 801
Executive and Council	4 156 266	3 036 246
Finance and Administration	(41 435 889)	(35 189 769)
Planning and Development	(40 458 341)	(26 665 922)
Community and Social Services	(1 157 160)	4 652 131
Actual surplus before appropriations	19 419 955	4 597 488

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with a short explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

5.2 Capital Budget:

DETAILS	Actual 2010/11 R	Actual 2009/10 R	Variance actual 2010/11 / 2009/10 R	Budgeted 2010/11 R	Variance actual/ budgeted R
Executive and Council	-	-	-	555 000	(555 000)
Finance and Administration	458 437	2 814 724	(2 356 287)	3 474 513	(3 016 076)
Planning and Development	4 317 306	385 163	3 932 143	90 927 472	(86 610 166)
Community and Social Services	3 182 854	286 605	2 896 249	3 358 095	(175 241)
Sport and Recreation	-	192 446	(192 446)	-	-
Environmental Protection	-	241 174	(241 174)	-	-
Roads and Transport	58 328 435	27 669 044	30 659 391	-	58 328 435
	66 808 721	31 589 155	35 219 566	98 315 080	(31 506 359)
	-	-			

Details of the results per segmental classification of capital expenditure are included in Appendix "C", together with a short explanation of significant variances of more than 10% from budget, are included in Appendix "E (2)".

6 ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2011 amounted to R231493558 (30 June 2010: R4597488) and is made up as follows:

Capital Replacement Reserve (CRR)	5 014 475
Government Grants Reserve	194 992 546
Accumulated Surplus / (Deficit) due to the results of Operations	31 486 538
	<u>231 493 558</u>

7 NON-CURRENT PROVISIONS

Non-current Provisions amounted to R4480969 as at 30 June 2011 (30 June 2010 : R4194511 and is made up as follows:

Provision for Long-term Service	424 880
Provision for Rehabilitation of Land-fill Sites	<u>4 056 089</u>
	<u>4 480 969</u>

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note 14 for more detail.

8 CURRENT LIABILITIES

Current Liabilities amounted R16746223 as at 30 June 2011 (30 June 2010: R25060713 and is made up as follows:

Creditors	Note 10	14 438 228
Unspent Conditional Grants and Receipts	Note 11	<u>2 016 582</u>
		<u>16 746 223</u>

Non-current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

9 PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R176697532 as at 30 June 2011 (30 June 2010: R133842494).

Refer to Note 7 and Appendices "B, C and E (2)" for more detail.

10 INTANGIBLE ASSETS

The net value of Intangible Assets were R200514 as at 30 June 2011 (30 June 2010: R146314).

These are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 8 for more detail.

11 CURRENT ASSETS

Current Assets amounted to R58983684 as at 30 June 2011 (30 June 2011: R89245519) and is made up as follows:

Inventory	Note 2	354 278
Consumer Debtors	Note 3	10 247 984
Other Debtors	Note 4	18 550 278
Bank Balances and Cash	Note 5	29 615 630
Operating Lease Assets	Note 6	<u>215 515</u>
		<u>58 983 684</u>

Refer to the indicated Notes for more detail.

12 INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 11 and 20, and Appendix "F" for more detail.

13 EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 44.

14 EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Budget and Treasury Department, for without their assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER

UMZIMVUBU LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2011

	Note	2011 R	2010 <i>Restated</i> R
ASSETS			
Current Assets		58 983 684	89 245 519
Inventory	2	354 278	338 465
Trade Receivables from Exchange Transactions	3	10 247 984	3 193 487
Trade Receivables from Non-Exchange Transactions	4	18 550 278	4 750 949
Cash and Cash Equivalents	5	29 615 630	80 703 758
Operating Lease Assets	6	215 515	258 860
Non-Current Assets		194 992 546	152 083 308
Property, Plant and Equipment	7	176 697 532	133 842 494
Intangible Assets	8	200 514	146 314
Investment Property	9	18 094 500	18 094 500
Total Assets		253 976 230	241 328 827
LIABILITIES			
Current Liabilities		16 746 223	25 060 713
Creditors	10	14 438 228	15 150 206
Unspent Conditional Grants and Receipts	11	2 016 582	9 910 507
Current Portion of Long-term Liabilities	13	291 413	-
Non-Current Liabilities		5 736 448	4 194 511
Long-term Liabilities	13	1 255 479	-
Non-current Provisions	14	4 480 969	4 194 511
Total Liabilities		22 482 671	29 255 224
Total Assets and Liabilities		231 493 558	212 073 603
NET ASSETS		231 493 558	212 073 603
Accumulated Surplus / (Deficit)	15	231 493 558	212 073 603
Total Net Assets		231 493 558	212 073 603

UMZIMVUBU LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011

	Note	Actual 2011 R	2010 Restated R	Budget 2011 R
REVENUE				
Revenue from Non-exchange Transactions				
Property Rates	16	6 535 712	10 022 451	8 160 000
Fines		463 311	144 257	400 000
Licences and Permits		6 502	32 218	2 767 000
Income for Agency Services		3 496 436	4 547 792	3 044 427
Government Grants and Subsidies Received	20	135 120 145	79 372 775	133 259 130
Revenue from Exchange Transactions				
Service Charges	18	1 755 056	1 231 001	1 300 000
Rental of Facilities and Equipment	19	1 686 833	873 307	1 064 974
Interest Earned - External Investments	17	3 362 168	4 388 311	5 000 000
Interest Earned - Outstanding Debtors	17	873 876	1 362 454	-
Other Income	21	2 947 136	1 287 582	46 290 764
Gains on Disposal of Property, Plant and Equipment		-	-	500 000
Profit on Sale of Land:-		407 123	-	300 000
Total Revenue		156 654 297	103 262 147	202 086 295
EXPENDITURE				
Employee Related Costs	22	32 050 554	24 316 814	45 941 317
Remuneration of Councillors	23	11 389 093	9 315 600	10 227 345
Bad Debts		-	-	365 000
Depreciation and Amortisation	24	23 403 182	19 321 715	472 986
Impairment Losses	25	5 587 808	7 707 016	-
Repairs and Maintenance		5 292 660	7 730 142	3 359 264
Finance Costs	26	135 788	8 292	-
General Expenses	27	58 995 126	30 265 082	43 405 303
Loss on Disposal of Property, Plant and Equipment		380 130	-	-
Total Expenditure		137 234 341	98 664 660	103 771 215
SURPLUS / (DEFICIT) FOR THE YEAR		19 419 955	4 597 488	98 315 080
Refer to Appendix E(1) for explanation of budget variances				

UMZIMVUBU LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1 BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board

1.1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2010 and 30 June 2011 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

- (a) is required by a Standard of GRAP; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

1.2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.2 1 Revenue Recognition

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: *Revenue from Exchange Transactions* and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.2 2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 6.1 on *Financial Assets Classification* and Accounting Policy 6.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32: *Financial Instruments - Presentation* and IAS 39: *Financial Instruments - Recognition and Measurement*.

UMZIMVUBU LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1.2 3 *Impairment of Financial Assets*

Accounting Policy 6.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: *Financial Instruments - Recognition and Measurement*, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

Impairment of trade receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness.

This was performed across all classes of debtors.

1.2 4 *Useful lives of Property, Plant and Equipment, Intangible assets and Investment property*

As described in Accounting Policies 3.3, 4 and 5 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

1.2 5 *Impairment: Write down of Property, Plant and Equipment and Inventories*

Accounting Policy 3.9 on *PPE - Impairment of assets* and Accounting Policy 4.2 on *Intangible assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 8.2 on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17: *Property, Plant and Equipment*, GRAP 12: *Inventory* and GRAP 102: *Intangible assets*. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgment by management.

1.2 6 *Defined Benefit Plan Liabilities*

As described in Accounting Policy 13, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 5 and 6 to the Annual Financial Statements.

1.2 7 *Provisions and contingent liabilities*

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities as set out in notes, 20 and 37 respectively. Provisions are discounted where the effect of discounting is material using actuarial valuations.

1.3 PRESENTATION CURRENCY

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

1.4 GOING CONCERN ASSUMPTION

The Annual Financial Statements have been prepared on a going concern basis.

UMZIMVUBU LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1.5 OFFSETTING

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued March 2005
GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 25 Employee Benefits - issued December 2009
GRAP 26 Impairment of Cash-generating Assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008
GRAP 104 Financial Instruments - October 2009

The Minister of Finance announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance. Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)
Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)
Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)
Financial Instruments (GRAP 104 Financial Instruments - October 2009)

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2 ACCUMULATED SURPLUS

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

2.1 Other Reserves

The Entity creates and maintains reserves in terms of specific requirements.

2.1 1 Capital replacement reserve (CRR)

UMZIMVUBU LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
 - The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
 - Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
 - If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed.
- Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

2.1 2 Government Grant Reserve

The Government Grant Reserve equals the carrying value of assets financed from government grants. Depreciation on these are set off against this grant.

3 PROPERTY, PLANT AND EQUIPMENT

3.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

3.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

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Subsequently all property plant and equipment, including for Infrastructure Assets, are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

3.3 Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

	Years		Years
<i>Infrastructure</i>		<i>Buildings</i>	<i>25 - 100</i>
Roads and Paving	45 - 50		
Electricity	45 - 50	<i>Other</i>	
Water	15 - 100	Specialist Vehicles	5 - 20
Sewerage	15 - 100	Other Vehicles	5 - 10
Landfill Sites	10 - 65	Office Equipment	3 - 7
		Furniture and Fittings	7 - 10
<i>Community</i>		Watercraft	15
Recreational Facilities	15 - 60	Bins and Containers	5
Security	5	Specialised Plant and Equipment	10 - 15
		Other items of Plant and Equipment	2 - 5

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

3.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

3.5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

3.6 Heritage Assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives. The Municipality assess at each reporting date if there is an indication of impairment.

Subsequent to measurement, heritage assets are carried at cost less impairment losses.

3.7 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

3.8 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

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3.9 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

3.10 Impairment of assets

3.10 1 *Impairment of Cash generating assets*

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset”

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at at revalued amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

3.10 2 *Impairment of Non-Cash generating assets*

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

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An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

3.10 3 Impairment of Non-Cash generating assets (continued)

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

Transitional provisions

The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2011 (and applied retrospectively where practicable), and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3 and ASB Directive 4.

4 INTANGIBLE ASSETS

4.1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with IPSAS 21/ IAS 36.

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Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the

4.2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, an intangible asset are carried at its cost less any accumulated amortisation and any accumulated impairment losses. Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

4.3 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Transitional provisions

The fair values of intangible assets recognised in terms of GRAP 102 have been disclosed for the financial year ended 30 June 2011 (and retrospectively where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 4.

5 INVESTMENT PROPERTY

5.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

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Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

5.2 Subsequent Measurement - Cost Model

Investment property is measured using the cost model. Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is estimated at 20 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying

5.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal

5.4 Transitional Provisions

The fair values of investment properties recognised in terms of GRAP 16 have been disclosed for the financial year ended 30 June 2011 (and retrospectively where practicable) in accordance with the requirements of GRAP 16, GRAP 3 and ASB Directive 4.

6 FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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Fair value methods and assumptions

The fair values of financial instruments are determined as follows:

The fair values of quoted investments are based on current bid prices.

If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

6.1 Financial Assets - Classification

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of IAS 39.09
Short-term Investment Deposits – Call	Held-to-maturity investments
Bank Balances and Cash	Loans and receivables
Long-term Receivables	Loans and receivables

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Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

6.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors (see note 9)
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are three main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Fair value through profit or loss; or
- (ii) Other financial liabilities (Financial liabilities measured at amortised cost)
- (iii) Financial guarantee contract

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives)

Any other financial liabilities are classified as "Other financial liabilities" in accordance with IAS 39.09

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

6.3 Initial and Subsequent Measurement

6.3 1 Financial Assets:

Held-to-maturity Investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis. .

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.

Available-for-Sale Financial Assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

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6.3 2 Financial Liabilities:

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities held at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

Financial guarantee contract

Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due.

Financial guarantee contract liabilities are initially measured at fair value.

The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

6.4 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in the Statement of Financial Performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in Statement of Financial Performance.

Impairment losses recognised in the Statement of Financial Performance for an investment in an equity instrument classified as available-for-sale are not reversed through the Statement of Financial Performance

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the Statement of Financial Performance, the impairment loss must be reversed, with the amount of the reversal recognised in the Statement of Financial Performance.

Financial assets carried at amortised cost

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Accounts receivables encompass long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

6.5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

6.6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

7 INVESTMENT IN JOINT VENTURES

A joint venture is a contractual arrangement whereby the Municipality and the other parties undertake an economic activity that is subject to joint control. Interests in jointly controlled entities are stated at cost.

8 INVENTORIES

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
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8.1 Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

8.2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Transitional provisions

The net realisable value of inventory recognised in terms of GRAP 12 have been disclosed for the financial year ended 30 June 2011 in accordance with the requirements of GRAP 12, GRAP 3 and ASB Directive 4.

9 NON-CURRENT ASSETS HELD-FOR-SALE

9.1 Initial Recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

9.2 Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit. The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale, is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

10 REVENUE RECOGNITION

10.1 General

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

10.2 Revenue from Exchange Transactions

10.2 1 Service Charges

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

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In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

10.2 2 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

10.2 3 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

10.2 4 Income from Agency Services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

10.2 5 Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

10.2 6 Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

10.2 7 Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with

10.2 8 Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

10.3 Revenue from Non-exchange Transactions

10.3 1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

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10.3 2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

10.3 3 Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

10.3 4 Government Grants and receipts

Equitable share allocations are recognised as revenue once received.

Conditional Grants and receipts

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

10.3 5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

11 PROVISIONS

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Environmental rehabilitation provisions

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Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

12 EMPLOYEE BENEFITS

12.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

12.2 Post employment benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

12.2 1 Defined Contribution Plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

12.3 Defined Benefit Plans

A **defined benefit plan** is a post-employment benefit plan other than a defined contribution plan.

12.3 1 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

13 LEASES

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

UMZIMVUBU LOCAL MUNICIPALITY
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13.1 The Municipality as Lessee

Finance leases

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases

The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

13.2 The Municipality as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

13.3 Determining whether an arrangement contains a lease

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

14 BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2011 in accordance with the requirements of GRAP 5 and ASB Directive 4.

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It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

15 GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

16 VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

17 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

18 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

19 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

20 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 37 for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

UMZIMVUBU LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
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Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 37 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

21 RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

22 EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

23 FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

24 COMPARATIVE INFORMATION

24.1 Current year comparatives:

Budgeted amounts have, in accordance with GRAP 1, been provided in an annexure to these financial statements and forms part of the audited Annual Financial Statements.

24.2 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

25 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

26 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

UMZIMVUBU LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2011

Description	Accumulated Surplus / (Deficit) Account			Total for Accumulated Surplus/(Deficit) Account	Total
	Capital Replacement Reserve	Government Grants Reserve	Accumulated Surplus / (Deficit)		
	R	R	R	R	R
2010					
Balance at 30 June 2009	-	-	330 862 714	330 862 714	330 862 714
Change in Accounting Policy (Note 30)			-	-	-
Correction of Error (Note 28)	5 014 475	-	(128 098 471)	(123 083 996)	(123 083 996)
Restated Balance	5 014 475	-	202 764 243	207 778 717	207 778 717
Surplus / (Deficit) for the year			24 647 153	24 647 153	24 647 153
Transferred to Government Grant Reserve		152 083 310	(152 083 310)	-	-
Balance at 30 June 2010	5 014 475	152 083 310	75 328 086	232 425 870	232 425 870
	-	-	(0.00)		
2011					
Correction of Error (Note 28)		-	(20 352 268)	(20 352 268)	(20 352 268)
Restated Balance	5 014 475	152 083 310	54 975 818	212 073 602	212 073 602
Surplus / (Deficit) for the year			19 419 955	19 419 955	19 419 955
Transferred to Government Grant Reserve		42 909 236	(42 909 236)	-	-
Balance at 30 June 2011	5 014 475	194 992 546	31 486 538	231 493 558	231 493 558
	-	-	(0.00)	(0.00)	-

UMZIMVUBU LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 R	2010 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from Ratepayers, Government and Other		118 055 701	99 044 935
Cash paid to Suppliers and Employees		(108 548 896)	(57 858 402)
Cash generated from / (utilised in) Operations	29	9 506 805	41 186 532
Interest received	17	4 236 044	4 388 311
Interest paid	26	(135 788)	(8 292)
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES		13 607 061	45 566 552
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	7	(66 808 721)	(31 589 155)
Purchase of Intangible Assets	8	(231 122)	
Proceeds on Disposal of Property, Plant and Equipment		754 417	
(Increase) / decrease in Long-term Receivables	6	43 345	(37 651)
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		(66 242 082)	(31 626 805)
CASH FLOWS FROM FINANCING ACTIVITIES			
New Loans raised	13	1 833 729	-
Loans repaid		(286 837)	-
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		1 546 892	-
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	5	(51 088 129)	13 939 746
Cash and Cash Equivalents at the beginning of the year		80 703 758	66 764 012
Cash and Cash Equivalents at the end of the year		29 615 630	80 703 758

The figures for Receipts, Payments, Cash and Cash Equivalents Balance at the beginning and end for 2009/10 was restated. See Correction of Error Note 28.8 Reclassification of Cash Flow Statement:

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011
R

2010
R

1 GENERAL INFORMATION

Umzimvubu Local Municipality (the municipality) is a local government institution in Mount Frere, Eastern Cape. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction and overview of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by The Constitution.

2 INVENTORY

Stationery at cost	354 278	338 465
Vacant properties at cost	-	-
Total Inventory	354 278	338 465

Stationery are held for own use with the result that no write downs of Inventory to Net Realisable Value were required.

Inventory in respect of Vacant properties at cost were restated due to a land claim hanging over these properties and because it is also listed in the Assets Register at a nominal value of R1 each.

3 TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances	Provision for Impairment	Net Balances
As at 30 June 2011			
Service Debtors:	6 356 835	5 752 690	604 145
Refuse	6 356 835	5 752 690	604 145
VAT Claim	9 372 243	-	9 372 243
Other Debtors	271 596	-	271 596
Total Trade Receivables from Exchange Transactions	16 000 674	5 752 690	10 247 984

	Gross Balances	Provision for Impairment	Net Balances
As at 30 June 2010			
Service Debtors:	4 676 380	3 626 829	1 049 550
Refuse	4 676 380	3 626 829	1 049 550
VAT Claim	2 143 936	-	2 143 936
Other Debtors	-	-	-
Total Trade Receivables from Exchange Transactions	6 820 316	3 626 829	3 193 487

The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.

The fair value of Consumer Debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and Consumer Debtors as well as the current payment ratio's of the municipality's Consumer Debtors.

3.1 Trade Receivables from Exchange Transactions

Refuse: Ageing

Current:

0 - 30 days	161 650	114 723
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Past Due:

31 - 60 Days	159 047	112 091
61 - 90 Days	158 086	113 830
91 - 120 Days	155 327	113 389
+ 120 Days	5 722 724	4 222 346
Total	6 356 835	4 676 380

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
Other Debtors: Ageing		
<u>Current:</u>		
0 - 30 days	-	-
<u>Past Due:</u>		
31 - 60 Days	50 890	-
61 - 90 Days	37 482	-
91 - 120 Days	31 195	-
+ 120 Days	152 029	-
Total	<u>271 596</u>	<u>-</u>

All Trade Receivables from Exchange Transactions - Ageing

<u>Current:</u>		
0 - 30 days	161 650	114 723
<u>Past Due:</u>		
31 - 60 Days	209 938	112 091
61 - 90 Days	195 568	113 830
91 - 120 Days	186 522	113 389
+ 120 Days	5 874 753	4 222 346
Total	<u>6 628 431</u>	<u>4 676 380</u>

As at 30 June 2011 Trade Receivables from Exchange Transactions of R 6466781 (30 June 2010: R 4561656) were past due date but not impaired. The age analysis of these debtors are as follows:

31 - 60 Days	209 938	112 091
61 - 90 Days	195 568	113 830
+ 90 Days	186 522	113 389
+ 120 Days	5 874 753	4 222 346
Total	<u>6 466 781</u>	<u>4 561 656</u>

3.2 Summary of Trade Receivables from Exchange Transactions by Customer Classification

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
As at 30 June 2011				
<u>Current:</u>				
0 - 30 days	102 291	35 987	11 250	12 122
<u>Past Due:</u>				
31 - 60 Days	101 277	35 198	10 731	62 733
61 - 90 Days	100 778	34 934	10 531	49 325
+ 90 Days	100 230	33 017	10 329	42 946
+ 120 Days	4 260 935	1 035 519	164 875	417 371
Sub-total	<u>4 665 511</u>	<u>1 174 655</u>	<u>207 715</u>	<u>584 497</u>
Less: Provision for Impairment	4 567 786	1 138 562	-	46 341
Total Debtors by Customer Classification	<u>97 725</u>	<u>36 093</u>	<u>207 715</u>	<u>538 156</u>
	3 948.00			

As at 30 June 2010

<u>Current:</u>				
0 - 30 days	92 933	10 325	4 838	6 628
<u>Past Due:</u>				
31 - 60 Days	90 449	10 258	4 756	6 628
61 - 90 Days	92 298	10 192	4 712	6 628
+ 90 Days	91 932	10 125	4 704	6 628
+ 120 Days	3 199 517	788 354	90 556	143 919
Sub-total	<u>3 567 129</u>	<u>829 254</u>	<u>109 566</u>	<u>170 431</u>
Less: Provision for Impairment	2 832 909	658 569	-	135 351
Total Debtors by Customer Classification	<u>734 220</u>	<u>170 685</u>	<u>109 566</u>	<u>35 080</u>

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
	2011 R	2010 R
3.3 Reconciliation of the Provision for Impairment		
Balance at beginning of year	3 626 829	-
Impairment Losses recognised	2 125 860	-
Balance at end of year	<u><u>5 752 690</u></u>	<u><u>3 626 829</u></u>

The Provision for Impairment were restated for the previous year due to the total Provision for Impairment being disclosed under Trade Receivables from Non-Exchange Transactions.

See Correction of Error Note for details.

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Consumer Debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months. No further credit provision is required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable.

3.4 Ageing of impaired Consumer Debtors

0 - 30 Days	128 621	87 268
Past Due:		
31 - 60 Days	128 203	85 243
61 - 90 Days	128 071	86 658
91 - 120 Days	127 919	86 314
+ 120 Days	5 239 877	3 281 347
Long-term Loan Debtors	-	-
Total	<u><u>5 752 690</u></u>	<u><u>3 626 829</u></u>

4 TRADE RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Assessment Rates	22 226 854	18 141 451
Payments made in Advance	327 566	305 454
Government Subsidy Claims	13 144 913	-
Sundry Debtors	336 370	327 522
	<u>36 035 703</u>	<u>18 774 427</u>
Less: Provision for Impairment	(17 485 426)	(14 023 479)
Total Trade Receivables from Non-Exchange Transactions	<u><u>18 550 278</u></u>	<u><u>4 750 949</u></u>

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Consumer Debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months. No further credit provision is required in excess of the Provision for Impairment.

Assessment Rates, Projects, Sundry Deposits and Sundry Debtors for 2009/10 were restated as Council approved the writing off of certain amounts.

See Correction of Error Note : 28.7 Reclassification of Statement of Financial Position : 30 June 2010 for details.

The average credit period for Government Grants and Subsidies is dependent on the Government Department involved and the nature of the claim. No interest is charged on outstanding Government Grants and Subsidies. The subsidies is payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and the relevant departments.

The management of the municipality is of the opinion that the carrying value of Other Debtors approximate their fair values.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
No provision has been made in respect of government debt as these amounts are considered to be fully recoverable.		
4.1 Reconciliation of Provision for Impairment		
Balance at beginning of year	14 023 478	9 943 292
Impairment Losses recognised	3 461 947	7 707 016
Impairment Losses reversed	-	(3 626 829)
Balance at end of year	<u><u>17 485 425</u></u>	<u><u>14 023 478</u></u>

The amount for Assessment Rates had been restated due to a difference in the billing system and the ledger control at 30 June 2010 which was still the difference at 30 June 2011. The Provision for Impairment were restated for the previous year due to a "Timevalue of Money" calculation by the Auditor General and the relevant amount in respect of Trade Receivables from Exchange Transactions being transferred to the relevant section.

See Correction of Error Note 28.7 Reclassification of Statement of Financial Position : 30 June 2010 for details.

4.2 Ageing of trade receivables from non-exchange transactions

Assessment Rates: Ageing

Current:

0 - 30 days	465 207	678 458
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Past Due:

31 - 60 Days	446 783	633 879
61 - 90 Days	442 762	631 594
91 - 120 Days	438 288	624 818
+ 120 Days	20 433 814	15 572 702
Total	<u><u>22 226 854</u></u>	<u><u>18 141 451</u></u>

Summary of Assessment Rates Debtors by Customer Classification

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
As at 30 June 2011				
<u>Current:</u>				
0 - 30 days	175 842	247 683	17 212	24 471
<u>Past Due:</u>	-	-		
31 - 60 Days	173 181	239 726	17 212	16 663
61 - 90 Days	170 547	238 345	17 212	16 658
+ 90 Days	168 559	236 557	17 004	16 167
+ 120 Days	7 999 367	7 631 707	3 169 525	1 633 215
Sub-total	8 687 496	8 594 018	3 238 166	1 707 174
Less: Provision for Impairment	8 424 072	8 441 373		619 981
Total Debtors by Customer Classification	<u><u>263 424</u></u>	<u><u>152 645</u></u>	<u><u>3 238 166</u></u>	<u><u>1 087 194</u></u>

As at 30 June 2010

Current:

0 - 30 days	276 217	339 751	41 339	35 998
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Past Due:

31 - 60 Days	250 729	335 317	25 208	35 970
61 - 90 Days	247 822	335 027	25 208	35 970
+ 90 Days	243 828	332 054	25 208	35 970
+ 120 Days	6 419 312	5 713 719	2 594 462	792 341
Sub-total	7 437 909	7 055 868	2 711 425	936 249
Less: Provision for Impairment	6 759 895	6 412 680	-	850 904
Total Debtors by Customer Classification	<u><u>678 014</u></u>	<u><u>643 188</u></u>	<u><u>2 711 425</u></u>	<u><u>85 345</u></u>

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
No provision for bad debts has been made in respect of government debt as these amounts are considered to be fully recoverable.		
<i>Ageing of impaired Rates Assessment Debtors</i>		
0 - 30 Days	376 350	517 795
<u>Past Due:</u>		
31 - 60 Days	375 787	483 379
61 - 90 Days	375 160	480 991
91 - 120 Days	374 567	475 789
+ 120 Days	15 983 562	12 065 524
Long-term Loan Debtors		
Total	<u>17 485 425</u>	<u>14 023 478</u>

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of receivables has been made for all debtor balances outstanding based on the payment ratio over 12 months. No further credit provision is required in excess of the Provision for Impairment.

No provision for bad debts has been made in respect of government debt as these amounts are considered to be fully recoverable.

5 CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents	29 615 630	80 703 758
Bank Overdraft (Cashbook)	-	-
Total Cash and Cash Equivalents	<u>29 615 630</u>	<u>80 703 758</u>

5.1 Current Investment Deposits

Call Deposits	26 356 205	78 300 124
Total Current Investment Deposits	<u>26 356 205</u>	<u>78 300 124</u>

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 3.8 % to 4.7 % per annum.

The Municipality has the following bank accounts:

5.2 Bank Accounts

Primary Bank Account

Cash in Bank	3 254 808	2 398 779
Total Bank Accounts	<u>3 254 808</u>	<u>2 398 779</u>

The Municipality has the following bank accounts:

First National Bank - Main Street, Mount Frere - Current Account Number 62022183727

Cash book balance at beginning of year	2 398 779	2 115 584
Cash book balance at end of year	<u>3 254 808</u>	<u>2 398 779</u>
Bank statement balance at beginning of year	2 253 455	2 093 331
Bank statement balance at end of year	<u>2 253 455</u>	<u>2 253 455</u>

The Municipality also has the following call deposit accounts for ring fenced purposes as indicated

			26 356 205	78 300 124
Planning and Survey	First National	6216 487 6842	560 739	793 674
Service Delivery Reserve	First National	6203 325 4723	431 817	25 926 735
Operational Investment	First National	6203 945 0715	10 671 702	9 712 274
Municipal Support Program (MSP)	First National	6203 189 8903	1 916 473	1 837 835

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

			2011	2010
			R	R
Drought Relief	First National	6208 603 6160	388 016	372 110
Municipal Infrastructure Grant (MIG)	First National	6208 603 6714	472 077	26 567 556
Guarantee Investment	First National	6206 874 2157	232 289	226 255
Capital Replacement Reserve	First National	6206 799 8040	5 228 681	5 014 475
Testing Centre	First National	6209 341 1339	3 211 823	3 077 805
Dedea Projects	First National	6224 528 8411	2 909 383	4 239 592
Operational Investment	Standard	18 475 016 4	-	504 396
Operational Investment	Standard	08 211 839 6	-	27 417
Financial Management Grant (FMG)	First National	6227 618 7294	45 101	
Munisipal System Improvement Grant	First National	6227 618 9018	31 067	
Operational Investment	First National	6228 856 0925	257 035	

The municipality did not make use of an overdraft facility during the 2010/11 financial year.

5.3 Cash and Cash equivalents

Cash Floats and Advances	4 617	4 855
Cash on hand in Cash Floats, Advances and Equivalents	<u>4 617</u>	<u>4 855</u>

The management of the municipality is of the opinion that the carrying value of Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

6 OPERATING LEASE ASSETS / RECEIVABLES

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

Balance at beginning of year	258 860	221 209
Operating Lease receipts recorded	13 796	37 651
Operating Lease receipts effected	(57 141)	-
Total Operating Lease Assets	<u>215 515</u>	<u>258 860</u>

Operating Lease Assets have been restated to adhere to the disclosure provisions of GRAP 13. Refer to Note 28 on Correction of Error for details of restatement

6.1 Leasing Arrangements

The Municipality as Lessor:

6.2 Amounts receivable under Operating Leases

At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

Up to 1 year	868 360	865 988
2 to 5 years	379 421	1 200 050
More than 5 years	107 200	154 931
Total Operating Lease Arrangements	<u>1 354 982</u>	<u>2 220 969</u>

The following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

7 PROPERTY, PLANT AND EQUIPMENT

30 June 2011

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Community	Heritage	Other	Total
	R	R	R	R	R	R
Carrying values at 01 July 2010	27 079 042	43 202 848	55 469 717	17 719	8 073 168	133 842 494
Cost	28 237 302	162 579 133	73 417 850	17 719	10 519 303	274 771 307
- Completed Assets	28 237 302	162 579 133	73 101 309	17 719	10 519 303	274 454 765
- Under Construction	-	-	316 541	-	-	316 541
Accumulated Depreciation:	(1 158 260)	(119 376 285)	(17 948 133)	-	(2 446 135)	(140 928 812)
- Cost	(1 158 260)	(119 376 285)	(17 948 133)	-	(2 446 135)	(140 928 812)
Acquisitions	-	28 299 613	769 041	-	2 642 139	31 710 793
Capital under Construction - Addition	4 205 592	30 892 336	-	-	-	35 097 928
- Cost	4 205 592	30 892 336	-	-	-	35 097 928
Increases in Revaluation	-	-	-	-	-	-
Depreciation:	(1 190 321)	(16 439 076)	(2 968 545)	-	(2 628 318)	(23 226 260)
- Based on Cost	(1 190 321)	(16 439 076)	(2 968 545)	-	(2 628 318)	(23 226 260)
Carrying value of Disposals:	-	-	-	-	(727 424)	(727 424)
- Cost	-	-	-	-	(1 421 748)	(1 421 748)
- Accumulated Depreciation	-	-	-	-	694 324	694 324
- Based on Cost	-	-	-	-	694 324	694 324
Capital under Construction - Completed	-	-	(316 541)	-	-	(316 541)
Carrying values at 30 June 2011	30 094 313	85 955 721	53 270 214	17 719	7 359 565	176 697 532
Cost	32 442 894	221 771 082	74 186 892	17 719	11 739 694	340 158 280
- Completed Assets	28 237 302	190 878 746	74 186 892	17 719	11 739 694	305 060 352
- Under Construction	4 205 592	30 892 336	-	-	-	35 097 928
Revaluation	-	-	-	-	-	-
Accumulated Depreciation:	(2 348 581)	(135 815 360)	(20 916 678)	-	(4 380 129)	(163 460 748)
- Cost	(2 348 581)	(135 815 360)	(20 916 678)	-	(4 380 129)	(163 460 748)

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

30 June 2010

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Community	Heritage	Other	Total
	R	R	R	R	R	R
Carrying values at 01 July 2009	28 847 318	(80 464 874)	44 409 374	17 719	6 796 835	(393 627)
Cost	28 847 318	131 985 814	74 469 708	17 719	7 861 593	243 182 152
- Completed Assets	28 847 318	131 985 814	74 469 708	17 719	7 861 593	243 182 152
Correction of error (Note 28)	-	(106 225 344)	(15 030 167)	-	(532 379)	(121 787 889)
Acquisitions	385 163	27 910 218	162 509	-	2 814 724	31 272 614
Capital under Construction - Addition	-	-	316 541	-	-	316 541
- Cost	-	-	316 541	-	-	316 541
Depreciation:	(1 158 260)	(13 150 941)	(2 917 966)	-	(1 913 756)	(19 140 923)
- Based on Cost	(1 158 260)	(13 150 941)	(2 917 966)	-	(1 913 756)	(19 140 923)
Other Movements	(995 179)	2 683 101	(1 530 908)	-	(157 014)	-
- Cost	(995 179)	2 683 101	(1 530 908)	-	(157 014)	-
Carrying values at 30 June 2010	27 079 042	43 202 848	55 469 717	17 719	8 073 168	133 842 494
Cost	28 237 302	162 579 133	73 417 850	17 719	10 519 303	274 771 307
- Completed Assets	28 237 302	162 579 133	73 101 309	17 719	10 519 303	274 454 765
- Under Construction	-	-	316 541	-	-	316 541
Accumulated Depreciation:	(1 158 260)	(119 376 285)	(17 948 133)	-	(2 446 135)	(140 928 812)
- Cost	(1 158 260)	(119 376 285)	(17 948 133)	-	(2 446 135)	(140 928 812)

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise all the Property, plant and equipment in accordance with GRAP 17 for the financial years up to 30 June 2010.

The municipality has identified and measured all Property, plant and equipment in terms of GRAP 17 for the financial year ended 30 June 2011. The balances of the Property, plant and equipment have been retrospectively restated accordingly.

All infrastructure assets were valued as at 30 June 2011 using the depreciated replacement cost approach.

Refer to Appendices "B(1), B(2), C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
7 PROPERTY, PLANT AND EQUIPMENT (Continued)		
7.1 Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use:		
Land and Buildings	30 094 313	27 079 042
Infrastructure	85 955 721	43 202 848
Community	53 270 214	55 469 717
Heritage	17 719	17 719
Other	7 359 565	8 073 168
Leased Infrastructure	-	-
Carrying Value of PPE fully depreciated and still in use	<u><u>176 697 532</u></u>	<u><u>133 842 494</u></u>

7.2 Impairment of Property, Plant and Equipment:

During the period, the municipality carried out a review of the recoverable amount of its infrastructure property, plant and equipment, having regard to its ongoing programme of modernisation and the extension of its services. It was not necessary to impair any assets.

7.3 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed:

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality therefore considered the useful life of all assets during the 2010/11 financial year. The useful life of the landfill sites were reduced in accordance with the actuarial assessment for the rehabilitation of the sites at 30 June 2011.

8 INTANGIBLE ASSETS

At Cost less Accumulated Amortisation and Accumulated Impairment Losses	<u><u>200 514</u></u>	<u><u>146 314</u></u>
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The movement in Intangible Assets is reconciled as follows:

	Computer Software	Servitudes Registered	Website Development	Total
Carrying values at 01 July 2010	146 314	-	-	146 314
Cost	377 060	-	-	377 060
Accumulated Amortisation	(230 746)	-	-	(230 746)
Acquisitions during the Year:	144 722	-	86 400	231 122
Purchased	144 722	-	86 400	231 122
Amortisation during the Year:	(176 922)	-	-	(176 922)
Affected	(176 922)	-	-	(176 922)
Carrying values at 30 June 2011	114 114	-	86 400	200 514
Cost	521 782	-	86 400	608 182
Accumulated Amortisation	(407 668)	-	-	(407 668)
	Computer Software	Servitudes Registered	Website Development	Total
Carrying values at 01 July 2009	327 106	-	-	327 106
Cost	377 060	-	-	377 060
Accumulated Amortisation	(49 954)	-	-	(49 954)
Acquisitions during the Year:	-	-	-	-
Amortisation during the Year:	(180 792)	-	-	(180 792)
Affected	(180 792)	-	-	(180 792)
Carrying values at 30 June 2010	146 314	-	-	146 314
Cost	377 060	-	-	377 060
Accumulated Amortisation	(230 746)	-	-	(230 746)

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011
R **2010**
R

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance.

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

Computer Software are issued under license and are restricted to the conditions under which each license are issued.

Refer to Appendix "B" for more detail on Intangible Assets.

8.1 Intangible Assets with Indefinite Useful Lives:

The municipality amortises all its Intangible Assets and no of such assets are regarded as having indefinite useful lives.

9 INVESTMENT PROPERTY

At Cost	18 094 500	18 094 500
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There was no movement in Investment Property during the financial year.

Carrying values at 1 July	18 094 500	18 094 500
Cost	18 094 500	18 094 500

Carrying values at 30 June	18 094 500	18 094 500
Cost	18 094 500	18 094 500

Estimated Fair Value of Investment Property at 30 June	18 094 500	18 094 500
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Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

Rental Revenue earned from Investment Property	975 337	983 112
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The rental for 2009/10 was restated. Only the straightlined portion of the revenue was previously disclosed. The amount is made up by R23 481 (Straight-lined previously disclosed) and R915 024 (Actual payments) = R938 505.

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Refer to Appendix "B" for more detail on Investment Property.

9.1 Impairment of Investment Property:

The value of investment property equals the last municipal valuation which was based on a market related valuation. Accordingly management feels that the fair value equals the properties recorded cost.

The Invest property consists out of land only, it does not depreciate and there was no reason why it should have been impaired.

10 CREDITORS

Trade Creditors	11 361 921	13 115 158
Payments received in Advance (Debtors Billing)	481 528	282 706
Retentions	114 725	-
Long Services Awards (Short term)	153 914	102 527
Sundry Deposits	58 644	78 270
Other Creditors	0	7 000
Accrued leave	2 267 496	1 564 545
Total Creditors	14 438 228	15 150 206

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011
R **2010**
R

Creditors have been restated to correctly classify amounts to be included in Trade Creditors. Unknown and erroneous accruals were written back. Refer to Correction of Error Note 28.7 Reclassification of Statement of Financial Position : 30 June 2010 for details.

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

Staff Bonuses refers to the actuarial valuation of long services awards to staff members in accordance with a remuneration policy. The accrual is an estimate of the amount due within 12 months after the reporting date.

Staff Leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

11 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

11.1 Conditional Grants from Government

National Government Grants

Total Conditional Grants and Receipts

2 016 582	9 910 507
2 016 582	9 910 507
2 016 582	9 910 507

The amount for Unspent Conditional Grants and Receipts are deposited in ring-fenced investment accounts until utilised.

See Note 20 for the reconciliation of all conditional grants.

The Unspent Grants are cashbacked by call deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

12 OPERATING LEASE LIABILITIES / PAYABLES

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. No liability existed at 30 June as none of the contracts has any escalation clauses.

12.1 Leasing Arrangements

The Municipality as Lessee:

Operating Leases relate to Equipment with lease terms not longer than 5 years, with no option to extend for a further period. Non of the operating lease contracts contain escalation clauses. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

Amounts payable under Operating Leases

At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Photocopiers which fall due as follows:

Vehicles and Other Equipment:

Up to 1 year

2 to 5 years

More than 5 years

1 052 308	1 566 253
513 945	513 945
538 363	1 052 308
1 052 308	1 566 253

Total Operating Lease Arrangements

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
13 LONG TERM LIABILITIES		
Finance Lease Liabilities	1 546 892	-
Sub-total	<u>1 546 892</u>	<u>-</u>
Less: Current Portion transferred to Current Liabilities:-	291 413	-
Finance Lease Liabilities	<u>291 413</u>	<u>-</u>
Total Long-term Liabilities (Neither past due, nor impaired)	<u><u>1 255 479</u></u>	<u><u>-</u></u>

13.1 Summary of Arrangements

Finance Lease Liabilities relates to Vehicles with lease terms starting during the year for a period of 5 years. The effective interest rate is prime rate which was 9% since the inception of the agreements. Capitalised Lease Liabilities are secured over the items of vehicles leased.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

13.2 Obligations under Finance Lease Liabilities

The Municipality as Lessee:

Finance Leases relate to Property, Plant and Equipment with lease terms not more than 5 years. The effective interest rate on Finance Leases is linked to the prime bank rate which was 9% since inception of the agreements.

The municipality does not have an option to purchase the leased Property, Plant and Equipment at the conclusion of the lease agreements. The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

The obligations under Finance Leases are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2011 R	2010 R	2011 R	2010 R
Amounts payable under finance leases:				
Within one year	418 807	-	291 413	-
In the second to fifth years, inclusive	1 468 678	-	1 255 479	-
Over five years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	1 887 485	-	1 546 892	-
Less: Future Finance Obligations	340 593	-		
Present Value of Minimum Lease Obligations	<u><u>1 546 892</u></u>	<u>-</u>	<u><u>1 546 892</u></u>	<u>-</u>
Less: Amounts due for settlement within 12 months (Current Portion)			291 413	-
Finance Lease Obligations due for settlement after 12 months (Non-current Portion)			<u><u>1 255 479</u></u>	<u>-</u>

The municipality has finance lease agreements for the following significant classes of assets:

- Vehicles

Included in these classes are the

(i) Vehicles	10
- Instalments are payable monthly in arrears	
- Average period outstanding	60 months
- Average effective interest rate, based on prime	9.00%
- Average monthly instalment	R 41 880.70

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
14 NON-CURRENT PROVISIONS		
Provision for Long Service Awards	424 880	403 770
Provision for Rehabilitation of Land-fill Sites	4 056 089	3 790 741
Total Non-current Provisions	<u>4 480 969</u>	<u>4 194 511</u>

Provision for Long Service Awards have been restated to adhere to the disclosure provisions of IAS 19. Refer to Note 28 on "Correction of Error" for details on the restatement.

The movement in Non-current Provisions are reconciled as follows:

	Long Service Awards R	Land-fill Sites R
30 June 2011		
Balance at beginning of year	403 770	3 790 741
Contributions to provision	175 024	265 349
Increase due to discounting	-	-
Expenditure incurred	-	-
	<u>578 794</u>	<u>4 056 089</u>
Transfer to current provisions	(153 914)	-
Balance at end of year	<u>424 880</u>	<u>4 056 089</u>
30 June 2010		
Balance at beginning of year	331 775	3 542 620
Contributions to provision	174 522	241 174
Increase due to discounting	-	6 947
Expenditure incurred	-	-
Balance at end of year	<u>403 770</u>	<u>3 790 741</u>

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 4,056 million to restore the sites at the end of its useful lives, estimated to be between 16 and 19 years. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

The figures for the Long Services Awards for 200910 were restated due to the valuation done at 30 June 2010 being done on inaccurate criteria.

14.1 Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality may become entitled to in future, based on an actuarial valuation performed.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2010 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At 30 June 2010, 125 employees were eligible for Long-services Awards.

The Current-service Cost for the year ending 30 June 2011 is estimated to be R133 628, whereas the interest for the current year is estimated to be R41 396.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
	2011 R	2010 R

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	9.08%	9.08%
Cost Inflation Rate	5.41%	5.41%
Net Effective Discount Rate	2.51%	2.51%
Expected Return on Plan Assets	6.41%	6.41%
Expected Rate of Salary Increase	6.41%	6.41%
Expected Return on Reimbursement Rights	0.00%	0.00%
Expected Retirement Age - Females	58	58
Expected Retirement Age - Males	58	58

Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	506 297	374 571
Current service costs	133 628	87 945
Interest cost	41 396	32 500
Benefits paid	(102 527)	(42 796)
Actuarial losses / (gains)	-	54 077
Total Recognised Benefit Liability	<u>578 794</u>	<u>506 297</u>

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	133 628	87 945
Interest cost	41 396	32 500
Actuarial losses / (gains)	-	54 077
Total Post-retirement Benefit included in Employee Related Costs	<u>175 024</u>	<u>174 522</u>

The history of experienced adjustments is as follows:

	2011 R	2010 R	2009 R	2008 R	2007 R
Present Value of Defined Benefit Obligation	578 794	506 297	374 571	-	-
Deficit	<u>578 794</u>	<u>506 297</u>	<u>374 571</u>	<u>-</u>	<u>-</u>

14.2 Rehabilitation of Land-fill Sites

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 4,056 million to restore the sites at the end of its useful lives, estimated to be between 16 and 19 years. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

15 ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

Capital Replacement Reserve (CRR)	5 014 475	5 014 475
Government Grants Reserve	194 992 546	152 083 309
Accumulated Surplus / (Deficit) due to the results of Operations	31 486 538	54 975 820
Total Accumulated Surplus	<u>231 493 558</u>	<u>212 073 603</u>

Accumulated Surplus has been restated to correctly disclose previous years balances. Refer to Note 28 on "Correction of Error" for details of the restatement.

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011
R **2010**
R

The **Government Grants Reserve** equals the carrying value of the items of property, plant and equipment financed from government grants. The Government Grants Reserve ensures consumer equity and is not backed by cash. Due to the exemption of depreciation of assets until 30 June 2011 the carrying value of assets are only known after the depreciation was done retrospectively and the reserve was restated accordingly.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

16 PROPERTY RATES

	Property Valuations		Actual Levies	
	July 2011	July 2010		
	R000's	R000's		
Residential	260 980 500	260 980 500	2 585 292	3 231 087
Commercial	245 779 500	245 779 500	2 739 048	4 708 834
State	108 698 500	108 698 500	1 211 372	2 082 530
Total Assessment Rates	615 458 500	615 458 500	6 535 712	10 022 451
Attributable to:				
Continuing Operations			6 535 712	10 022 451
Discontinued Operations			-	-
			6 535 712	10 022 451

The municipality does not raise interest on overdue accounts and therefore Property Rates Revenue have been restated to disclose the fair value of Interest Revenue. (IAS 39) whereby part of the Property Rates Revenue was discounted and transferred to Interest on Outstanding Debtors Revenue.

See Correction of Error Note 28.3 Reclassification of Revenue - 2009/10 for details.

Assessment Rates are levied on the value of land and improvements, which valuation is performed every four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The last valuation came into effect on 1 July 2009.

An average general rate of 1.1 c/R (2009/2010: 1.6 c/R) is applied to residential and 1.3 c/R (2009/10: 1.8 c/R) on business property valuations to determine assessment rates.

Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is not levied on overdue amounts.

17 INTEREST EARNED

External Investments:

Investments	3 362 168	4 388 311
	3 362 168	4 388 311

Outstanding Debtors:

Outstanding Billing Debtors	873 876	1 362 454
	873 876	1 362 454
Total Interest Earned	4 236 044	5 750 765

Interest on Outstanding Debtors have been restated to disclose the fair value of interest on outstanding accounts in accordance with International Accounting Standard (IAS) 39.

See Correction of Error Note 28.3 Reclassification of Revenue - 2009/10 for details.

Interest Earned on Financial Assets, analysed by category of asset, is as follows:

Available-for-Sale Financial Assets	3 362 168	4 388 311
Loans and Receivables	873 876	1 362 454
	4 236 044	5 750 765

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
18 SERVICE CHARGES		
Refuse Removal	1 755 056	1 231 001
Total Service Charges	1 755 056	1 231 001

The municipality does not raise interest on overdue accounts and therefore Service Charges Revenue have been restated to disclose the fair value of Interest Revenue. (IAS 39) whereby part of the Service Charges Revenue was discounted and transferred to Interest on Outstanding Debtors Revenue.

See Correction of Error Note 28.3 Reclassification of Revenue - 2009/10 for details.

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

19 RENTAL OF FACILITIES AND EQUIPMENT

Operating Lease Rental Revenue:		
- Investment Property	975 337	983 112
- Other Rental Revenue	4 785	1 562
Rental Revenue from Buildings	573 113	(225 342)
Rental Revenue from Halls	132 282	113 974
Rental Revenue from Land	1 316	-
Total Rental of Facilities and Equipment	1 686 833	873 307

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

20 GOVERNMENT GRANTS AND SUBSIDIES

National Equitable Share	71 442 307	58 456 347
Other Subsidies	3 500 000	-
Operational Grants	74 942 307	58 456 347
Conditional Grants	60 177 838	20 916 429
National: FMG	1 016 304	1 309 216
National: MIG	35 403 053	18 783 860
National: MSIG	1 665 001	632 909
Other: Electricity	20 000 000	-
Provincial: DEAT Grant	2 093 481	68 511
Other Spheres of Government: Various Grants	-	121 933
Total Government Grants and Subsidies	135 120 145	79 372 775

Operational Grants:

20.1 National: Equitable Share	71 442 307	58 456 347
Utilised	71 442 307	58 456 347

In terms of the Constitution, part of this grant is used to subsidise the provision of basic services to indigent community members on application. Households where the total gross monthly income of all occupants over 18 years of age does not exceed the earning of a combined gross income equivalent to or less than two times the Government pension grant as prescribed by the National Department of Social Development, qualify for a subsidy of the essential services package

20.2 Municipal Election Support

Utilised	3 500 000	-
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The Municipality received an amount of R3 500 000 from the Department of Local Government, Housing and Traditional Affairs for the funding of operations and preparations necessary with the Municipal Election held in May 2011

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
Conditional Grants:		
20.2 National: FMG Grant		
Balance unspent at beginning of year	(177 178)	132 038
Current year receipts	1 200 000	1 000 000
Conditions met - transferred to Revenue	(1 016 304)	(1 309 216)
Other Transfers		
Conditions still to be met - transferred to Current Assets (see Note11)	<u>6 518</u>	<u>(177 178)</u>

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

20.3 National: MIG Funds

Balance unspent at beginning of year	5 319 140	-
Current year receipts	16 939 000	24 103 000
Conditions met - transferred to Revenue	(35 403 053)	(18 783 860)
Other Transfers	13 144 913	-
Conditions still to be met - transferred to Current Assets (see Note11)	<u>-</u>	<u>5 319 140</u>

The Municipal Infrastructure Grant (MIG) was allocated for mainly the construction of roads. No funds have been withheld.

The MIG Grant was overspend due to National Treasury changed the time of payment from the National Government Financial Year to the Municipal Financial Year. I.e. from March 2011 to June 2011. The R13 144 913 is shown as a debtor "Government Grants and Subsidies"

20.4 National: MSIG Funds

Balance unspent at beginning of year	667 091	-
Current year receipts	1 000 000	1 300 000
Conditions met - transferred to Revenue	(1 665 001)	(632 909)
Conditions still to be met - transferred to Current Assets (see Note11)	<u>2 090</u>	<u>667 091</u>

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and was used to improve information technology networks and Ward Committee operations. No funds have been withheld.

20.5 National - Electricity

Balance unspent at beginning of year	-	-
Current year receipts	20 000 000	-
Conditions met - transferred to Revenue	(20 000 000)	-
Conditions still to be met - transferred to Current Assets (see Note11)	<u>-</u>	<u>-</u>

The grant was received from the Department of Mineral and Energy to be paid to Eskom for the upgrading of electrical installations within the greater municipal area. Eskom is the Electricity Service Provider in the area.

20.6 National - Department Economic Affairs and Trade (DEAT)

Balance unspent at beginning of year	4 101 454	-
Current year receipts	-	4 169 965
Conditions met - transferred to Revenue	(2 093 481)	(68 511)
Conditions still to be met - transferred to Liabilities (see Note 10)	<u>2 007 973</u>	<u>4 101 454</u>

This grant was allocated for Economic Development Program. No funds have been withheld.

20.13 Changes in levels of Government Grants

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2008), government grant funding is expected to increase over the forthcoming three financial years.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
21 OTHER INCOME		
Pound Fees	328 948	455 729
Free Basic Services	-	0
Advertising	86 845	79 359
Building Plan Fees	71 428	131 199
Funeral Plot Fees	12 184	13 695
Parking Meters	2 162	-
LG Seta	51 669	
Sales:Wood	146	701
Tender Fees	249 817	267 900
VAT Refund	2 143 936	(30 081)
Other Income	-	1 054
Insurance Claims	-	37 982
Unknown Deposit	-	325 044
Inter-departmental Recoveries	-	5 000
Total Other Income	2 947 136	1 287 582
Attributable to:		
Continuing Operations	2 947 136	1 287 582
	2 947 136	1 287 582

Other Revenue was restated as payments to Eskom for Free Basic Services was debited to a revenue vote. See Correction of Error Note 28.3 Reclassification of Revenue - 2009/10 for details.

The amounts disclosed above for Other Income are in respect of services, other than described in Notes 16 to 20, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

22 EMPLOYEE RELATED COSTS

Employee Related Costs - Salaries and Wages	23 052 137	13 325 298
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	3 740 299	3 600 977
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	3 979 509	5 394 913
Housing Benefits and Allowances	1 206 112	1 844 874
Long-service Awards	72 497	150 751
Total Employee Related Costs	32 050 554	24 316 814

No advances were made to employees.

Remuneration of the Municipal Manager

Annual Remuneration	617 939	568 022
Car Allowance	169 672	151 711
Housing Allowance	62 044	55 588
Company Contributions to UIF, Medical and Pension Funds	10 084	95 251
Total	859 739	870 572

Remuneration of the Chief Financial Officer

Annual Remuneration	465 775	410 437
Car Allowance	112 904	125 138
Housing Allowance	83 810	75 089
Company Contributions to UIF, Medical and Pension Funds	8 440	51 422
Total	670 929	662 086

Remuneration of the Manager: Corporate Services

Annual Remuneration	465 773	380 993
Performance Bonus	50 034	
Acting allowance		9 050
Car Allowance	121 080	99 408
Housing Allowance	99 506	81 859
Company Contributions to UIF, Medical and Pension Funds	8 924	28 033
Total	745 316	599 343

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
<i>Remuneration of the Manager: Infrastructure and Planning</i>		
Annual Remuneration	465 772	435 515
Performance Bonus	30 300	-
Car Allowance	171 122	126 935
Housing Allowance	75 050	92 599
Company Contributions to UIF, Medical and Pension Funds	8 627	7 691
Total	750 871	662 741

<i>Remuneration of the Manager: Community Services</i>		
Annual Remuneration	465 772	393 074
Acting allowance		15 313
Car Allowance	246 172	131 936
Company Contributions to UIF, Medical and Pension Funds	8 174	6 160
Total	720 118	546 483

<i>Remuneration of the Manager: Local Economic Development</i>		
Annual Remuneration	465 772	455 109
Acting allowance	64 196	
Car Allowance	137 221	129 768
Housing Allowance	52 069	
Company Contributions to UIF, Medical and Pension Funds	8 392	58 430
Total	727 649	643 307

The Manager was on leave from November to January and from March to June, Assistant Manager LED was the acting LED Manager for these periods and was paid an acting allowance

<i>Remuneration of the Manager: Chief Operations Officer</i>		
Annual Remuneration	465 775	497 915
Acting allowance	8 559	
Car Allowance	112 904	130 073
Housing Allowance	83 810	
Company Contributions to UIF, Medical and Pension Funds	8 046	46 364
Total	679 095	674 351

The Manager was on leave from 12-31 May 2011. Assistant Manager: SPU was an acting Manager and was paid an acting allowance for the period he was acting.

No compensation was payable to key management personnel in terms of IAS 19 as at 30 June.

23 REMUNERATION OF COUNCILLORS

Executive Mayor	564 011	519 680
Speaker	443 056	415 744
Mayoral Committee Members	2 599 432	2 422 725
Councillors	7 509 467	5 655 012
Company Contributions to UIF, Medical and Pension Funds	-	132 680
Reimburse travel outside the municipal area	273 127	169 759
Total Councillors' Remuneration	11 389 093	9 315 600

In-kind Benefits

Councillors may utilise official Council transportation when engaged in official duties.

The Mayor had the use of a residence of which Council paid the monthly rental.

The Mayor had an official office and car.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
24 DEPRECIATION AND AMORTISATION		
Depreciation: Property, Plant and Equipment	23 226 260	19 140 923
Amortisation: Intangible Assets	176 922	180 792
	-	-
Total Depreciation and Amortisation	23 403 182	19 321 715
The municipality opted to take advantage of the transitional provisions in Directive 4 from the Accounting Standards Board under which assets will not be depreciated until 30 June 2011.		
25 IMPAIRMENT LOSSES		
25.1 Impairment Losses on Fixed Assets		
All assets were tested for impairment and it was not found necessary to impair any asset.		
25.2 Impairment Losses on Financial Assets		
Impairment Losses Recognised:	5 587 808	7 707 016
Consumer Debtors	2 125 860	-
Other Debtors (Rates)	3 461 947	7 707 016
Total Impairment Losses	5 587 808	7 707 016
26 FINANCE COSTS		
Finance Leases	77 727	-
Other	58 061	8 292
Total Interest Paid on External Borrowings	135 788	8 292
27 GENERAL EXPENSES		
Cleaning Services	752 813	741 885
Performance Management System	209 796	-
Subsistence and Travelling	3 033 685	2 928 001
Uniforms & Protective Clothing	520 503	103 848
Accounting & Audit Fees	2 607 198	2 402 175
Advertising Fees	457 349	418 561
Ammunition	157 471	-
Bank Charges	169 871	164 904
Books & Publications	70 905	89 354
Branding & Marketing	406 937	92 802
Bursaries (Scarce Skills)	163 976	-
Catering	539 327	512 610
Communication Strategy	-	123 638
Community Radio Support	237 380	149 631
Conference Fees	205 775	68 903
Consultant & Professional Fees	3 235 968	4 678 497
Consumeables & Beverages	41 034	33 060
Customer Care	2 965	1 351
Disaster Management Plan	187 388	57 122
EAP	27 700	242 863
Electricity and Water Purchases	366 854	377 109
Entertainment	1 016 812	30 503
Events & Programs	291 224	294 555
Gazetting Bylaws Project	30 000	-
Health and Safety	46 534	-
ICT Licensing	51 900	-
HIV/AIDS	175 960	30 900
IGR	13 800	-
Indigent Support	629 292	207 688
Insurance: External	769 548	739 735
Internal Audit Committee	961 579	468 157

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
Legal Fees	640 294	812 548
Material & Stores	19 330	3 210
Membership fees	311 873	409 068
Payday Licencing and Support	29 217	-
Policy Roll out Programme	24 392	-
Office Rental	116 205	206 205
Pauper Baurials	850	3 400
Postage	1 440	902
Pound Fees	36 703	13 798
Printing & Stationery	944 920	337 833
Promotional Material	661 449	199 864
Induction Programme	1 455	-
Speed Enforcement	60 807	-
Integrated Development Plan (IDP)	188 999	-
Agrarian Reform	310 188	-
Recruitment Activities	227 623	-
Environmental Management	416 613	-
Investment Promotion	183 965	-
SMME Development	649 889	-
Forestry Development	245 151	-
Public Safety	102 742	7 000
Human Resources	14 720	-
Roll Over Projects	456 036	-
Ratepayers Incentive	900	-
Refuse Bags & Bins	735 109	488 500
Security Costs	1 868 787	1 536 328
SPU Programmes	465 944	153 682
Strategic Planning	169 900	523 368
Sundry Expenses	1 431	7 661
Survey and Planning	(6 508)	443 939
System Rental	11 196	142 770
Telephone	2 449 289	1 750 471
Training External	851 083	385 721
Fuel & Oil	861 424	80 890
Fleet Rental Services	804 743	-
Ward Committees	345 500	548 420
Equipment Rental	308 721	210 886
Medicine for Pound	13 000	-
Hall Hire	-	31 303
Drivers Licence Cards	72 075	-
SPU Programmes	-	320 955
Financial Management Grant	988 745	(21 331)
Recruitment Activities	1 887 075	-
Translation of Policies	69 950	-
Year End Function	132 886	-
Financial Systems	558 434	-
Munisipal Systems Improvement Grant	1 624 160	-
Policy formulation & Review	10 361	-
Free Basic Services	1 568 040	112 964
Tourism	571 680	-
Financial Management Grant	-	841 375
Municipal Systems Infrastructure Grant (MSIG)	-	185 383
Policy formulation & Review	-	186 726
Garnishee	-	(1 300)
Admin Systems	-	343 940
Petty Cash	-	20 527
EEP	-	97 240
Annual Reports	243 562	-
Performance Management System	-	174 000
ICT Infrastructure	427 281	27 379
Mayors Discretionary Fund	-	535 957
Community Facilities	345 838	757 380
Municipal Infrastructure Grant (MIG)	19 396	315 017
Waste Management	1 024 863	1 398 033
Electrification	17 543 860	147 600

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
Forestry Development	-	286 677
Investment Plan	-	133 740
Massive Food Production	-	647 737
SMME Development	-	126 915
Tourism	-	301 297
DEDEA Projects	-	66 811
IDP Out Reach	-	4 440
Total General Expenses	58 995 126	30 265 082

General expenses was restated as payments for the amount of R112 964 to Eskom for Free Basic Services was debited to a revenue vote. See Correction of Error Note 28.5 Reclassification of Expenditure - 2009/10 for details.

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense.

28 CORRECTION OF ERROR

28.1 Corrections were made and appropriated to the Accumulated Surplus Account during the financial years ended 30 June 2009 and 30 June 2010

Appropriations are summarised as follows:

	2010	2009
Trade Receivables from Exchange Transactions	-3 626 829	-1 585 501
Trade Receivables from Non-Exchange Transactions	1 194 643	-
Cash and Cash Equivalents	758 068	-
Operating Lease Assets	-2 994	-29 225
Property, Plant and Equipment	-19 140 923	-121 787 889
Intangible Assets	-180 792	-49 954
Creditors	1 043 967	340 439
Non-current Provisions	6 093	28 134
Accumulated Surplus / (Deficit)		
Increase / (Decrease) in Accumulated Surplus Account	-20 352 268	-123 083 996

28.2 Reclassification of Revenue - 2008/09

Detail : None.

AFS	RESTATED	ADJUSTMENT
-----	----------	------------

28.3 Reclassification of Revenue - 2009/10

	AFS	RESTATED	ADJUSTMENT
Property Rates	11 235 868	10 022 451	1 213 417
Fines	144 257	144 257	-
Licences and Permits	32 218	32 218	-
Income for Agency Services	4 547 792	4 547 792	-
Government Grants and Subsidies Received	79 372 775	79 372 775	-
Service Charges	1 380 038	1 231 001	149 037
Rental of Facilities and Equipment	876 301	873 307	2 994
Interest Earned - External Investments	4 388 311	4 388 311	-
Interest Earned - Outstanding Debtors	-	1 362 454	-1 362 454
Other Income	1 174 618	1 287 582	-112 964
	103 152 178	103 262 147	-109 970

Detail :

Property Rates

As a result of the municipality not raising interest on outstanding debtors a "Time Value of Money" calculation revealed that part of the revenue from Property Rates disclosed need to be disclosed as "Interest on outstanding debtors".

11 235 868	10 022 451	1 213 417
		1 213 417

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
<u>Service Charges</u>		
<i>As a result of the municipality not raising interest on outstanding debtors a "Time Value of Money" calculation revealed that part of the revenue from Service Charges (Refuse Disposal) disclosed need to be disclosed as "Interest on outstanding debtors".</i>	1 380 038	1 231 001
		<u>149 037</u>
		<u>149 037</u>
<u>Rental of Facilities and Equipment</u>		
<i>The straightlining of rental from operating leases previously incorrectly included VAT</i>	24 381	21 387
		<u>2 994</u>
		<u>2 994</u>
<u>Interest Earned - Outstanding Debtors</u>		
<i>As a result of the municipality not raising interest on outstanding debtors a "Time Value of Money" calculation revealed that part of the revenue from Property Rates and Service Charges (Refuse Disposal) disclosed need to be disclosed as "Interest on outstanding debtors".</i>	-	1 362 454
		<u>-1 362 454</u>
		<u>-1 362 454</u>

28.4 Reclassification of Expenditure - 2008/09

Detail : None

28.5 Reclassification of Expenditure - 2009/10

	AFS	RESTATED	ADJUSTMENT
Employee Related Costs	24 327 977	24 316 814	11 163
Remuneration of Councillors	9 315 600	9 315 600	-
Depreciation and Amortisation	-	19 321 715	-19 321 715
Impairment Losses	6 970 897	7 707 016	-736 119
Repairs and Maintenance	7 730 142	7 730 142	-
Finance Costs	8 292	8 292	-
General Expenses	30 152 118	30 265 082	-112 964
	<u>78 505 025</u>	<u>98 664 660</u>	<u>-20 159 635</u>

Detail :

Employee Related Costs

The valuation of the Long Service Awards liability last year was calculated on incorrect criteria submitted and had to be restated as follows:

	AFS	RESTATED	ADJUSTMENT
<i>Employee costs : Current Service Cost</i>	95 408	87 945	7 463
<i>Employee costs : Interest Cost</i>	35 256	32 500	2 756
<i>Employee costs : Actuarial Loss</i>	58 651	54 077	4 574
<i>Employee costs : Contributions</i>	-46 426	-42 796	-3 630
			<u>11 163</u>

Depreciation and Amortisation

Depreciation was previously exempted in accordance with Accounting Standard Directive 4. Directive 4 is no longer applicable and the municipality need to apply depreciation for the 2010/11 financial year retrospectively for the last two years. Accordingly the depreciation for the 2009/10 year was disclosed as indicated. See Appendix B(2) for details.

-19 321 715

-19 321 715

Impairment Losses

With the "Time Value of Money" calculation the Auditor General determined that the provision for impairment are to low.

6 970 897 7 707 016 -736 119

-736 119

General Expenses

Free Basic Services paid to Eskom was recorded as revenue for the 2009/10 Financial Year

30 152 118 30 265 082 -112 964

Refer Payments EF005151 dated 15/01/2010 for R74 173,47 and EF005403 dated 03/03/2010 for R38 790.35

-112 964

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R	
28.6 Reclassification of Statement of Financial Position : 30 June 2009	AFS	RESTATED	ADJUSTMENT
Inventory	403 500	403 500	-
Trade Receivables from Exchange Transactions	9 741 857	8 156 356	1 585 501
Trade Receivables from Non-Exchange Transactions	-416 208	-416 208	-
Cash and Cash Equivalents	66 005 944	66 005 944	-
Operating Lease Assets	250 434	221 209	29 225
Property, Plant and Equipment	243 182 152	121 394 262	121 787 889
Intangible Assets	377 060	327 106	49 954
Investment Property	18 094 500	18 094 500	-
Creditors	2 741 958	2 401 519	340 439
Unspent Conditional Grants and Receipts	132 038	132 038	-
Non-current Provisions	3 902 529	3 874 395	28 134
	344 415 764	220 594 622	123 821 142

Details :

Trade Receivables from Exchange Transactions

VAT was reconciled during 2009/10 and as a result an amount of R3 044 011.95 was transferred to the Accumulated Surplus account. Just before the final AFS for 2009/10 was submitted an error, Output VAT of R1 585 501.11 declared on an Equitable Share Receipt of R12 910 509 was discovered. The receipt was corrected and the declared amount was adjusted to an Output VAT control vote. This adjustment should have been part of the reconciliation process for 2009/10 and the amount of R3 044 011.95 mentioned before should have been reduced by this amount.

1 585 501

1 585 501

Operating Lease Assets

The straight-lining of rental from operating leases previously incorrectly included VAT causing the asset to be overstated.

237 974 208 749 -29 225

-29 225

Property, Plant and Equipment

Depreciation was previously exempted in accordance with Accounting Standard Directive 4. Directive 4 is no longer applicable and the municipality need to apply depreciation for the 2010/11 financial year retrospectively for the last two years. Accordingly the "backlog" depreciation was calculated at 30 June 2009 as indicated. See Appendix B(2) for details.

-121 787 889

-121 787 889

Intangible Assets

See note under Property, Plant and Equipment above.

-49 954

-49 954

Creditors

The valuation of the Long Services Awards liability last year was calculated on incorrect criteria submitted and had to be restated. The report by the actuaries will have to be studied for details.

Provision for Long Service Bonuses (Current)

Pre-2009/10 unknown balances written off

	AFS	RESTATED	ADJUSTMENT
Bank Debtor	949 600450	-1 150	-1 150
Consumer reallocation	949 777777	-150 841	-150 841
Net salaries control Acc	949 601220	-53 211	-53 211
Strike Fund control account	949 601230	-1 473	-1 473
Days Absent control account	949 601240	-125 344	-125 344
Insurance cars control account	949 060200	-5 698	-5 698
Municipal Services control Account	949 601280	908	908

-340 439

Non-current Provisions

The valuation of the Long Services Awards liability last year was calculated on incorrect criteria submitted and had to be restated. The report by the actuaries will have to be studied for details.

Non- Current provision for Long Service Bonuses -359 909.00 -331 775.00 -28 134

-28 134

28.7 Reclassification of Statement of Financial Position : 30 June 2010

	AFS	RESTATED	ADJUSTMENT
Trade Receivables from Exchange Transactions	8 405 817	4 778 988	3 626 829
Trade Receivables from Non-Exchange Transactions	3 556 306	4 750 949	-1 194 643

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 R	2010 R
Cash and Cash Equivalents	79 945 690	80 703 758	-758 068
Operating Lease Assets	291 079	288 085	2 994
Property, Plant and Equipment	274 771 307	255 630 384	19 140 923
Intangible Assets	377 060	196 268	180 792
Creditors	16 534 612	15 490 645	1 043 967
Non-current Provisions	4 228 738	4 222 645	6 093
	<u>416 857 582</u>	<u>394 405 194</u>	<u>22 452 387</u>

Details:

Inventory

Erven previously held as inventory are also included in the Assets Register as Property Plant and Equipment at a nominal value of R1 each due to a land claim hanging over these properties. The duplication need to be reversed.

403 500

403 500

Trade Receivables from Exchange Transactions

The total Provision for Impairment was disclosed under Trade Receivables from Non-Exchange Transactions and need to be separated to show the provision on Refuse Disposal Charges

3 626 829

3 626 829

Trade Receivables from Non-Exchange Transactions

Guarantee Investment was disclosed as Non Exchange Transactions and should have been Cash and Cash Equivalents (Short term investment) due to a coding error.

-226 255

Consumer Debtors control account balance more than the Debtors account system 30 June 2010 to date

-229 198

With the "Time Value of Money" calculation the Auditor General determined that the provision for impairment are to low.

-736 119

The total Provision for Impairment was disclosed under Trade Receivables from Non-Exchange Transactions and need to be separated to show the provision on Trade Receivables from Exchange Transactions.

3 626 829

Write off of old balances as per Council Resolution. Accruals R1 116 762.95, Prior year corrections R120 571.07 and Deposit reversals R3 280.46

-1 240 614

1 194 643

Cash and Cash Equivalents

Guarantee Investment was disclosed as Non Exchange Transactions and should have been Cash and Cash Equivalents (Short term investment) due to a coding error.

226 255

Standard Bank Investment account number 18 475 016 4 not recorded in accounting records at 30 June 2010

504 396

Standard Bank Investment account number 08 211 839 6 not recorded in accounting records at 30 June 2010

27 417

758 068

Operating Lease Assets

The straight-lining of rental from operating leases previously incorrectly included VAT causing the asset to be overstated.

24 381 21 387 -2 994

-2 994

Property, Plant and Equipment

Depreciation was previously exempted in accordance with Accounting Standard Directive 4. Directive 4 is no longer applicable and the municipality need to apply depreciation for the 2010/11 financial year retrospectively for the last two years. Accordingly the carrying value of assets were reduced with the depreciation for the 2009/10 financial year. See Appendix B(2) for details.

-19 140 923

-19 140 923

Intangible Assets

See note under Property Plant and Equipment above.

-180 792

-180 792

Creditors

The valuation of the Long Services Awards liability last year was calculated on incorrect criteria submitted and had to be restated. The report by the actuaries will have to be studied for details.

Long Service Award Liability (Current)

Long Service Award Liability (Current)

Erroneous accruals Creditors Control at 30 June 2010 949 600801

AFS	RESTATED	ADJUSTMENT
46 426	42 796	3 630
-111 227	-102 527	-8 700
-14 820 815	-13 781 919	-1 038 897
		<u>-1 043 967</u>

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
Non-current Provisions		
<i>The valuation of the Long Services Awards liability last year was calculated on incorrect criteria submitted and had to be restated. The report by the actuaries will have to be studied for details.</i>		
Long Service Award Liability (Non-Current)	-189 315	-174 522
Long Service Award Liability (Non-Current)	111 227	102 527
		<u>-14 793</u>
		<u>8 700</u>
		<u>-6 093</u>

28.8 Reclassification of Cash Flow Statement:

	AFS	RESTATED	ADJUSTMENT
Cash receipts from Ratepayers, Government and Other	98 934 965	99 044 935	-109 970
Cash paid to Suppliers and Employees	-57 745 439	-57 858 402	112 964
(Increase) / decrease in Long-term Receivables	-40 645	-37 651	-2 994
Cash and Cash Equivalents at the beginning of the year	66 005 944	66 764 012	-758 068
Cash and Cash Equivalents at the end of the year	79 945 690	80 703 758	-758 068

Details :

	AFS	RESTATED	ADJUSTMENT
<u>Cash receipts from Ratepayers, Government and Other</u>			
Free Basic Services paid to Eskom was recorded as revenue for the 2009/10 Financial Year			74 173
Refer Payments EF005151 dated 15/01/2010 for R74 173,47 and EF005403 dated 03/03/2010 for R38 790.35			38 790
Refer Payments EF005151 dated 15/01/2010 for R74 173,47 and EF005403 dated 03/03/2010 for R38 790.35			
Rental on operating lease previously overstated with VAT	24 381	21 387	-2 994
			<u>109 970</u>

Cash paid to Suppliers and Employees

Free Basic Services paid to Eskom was recorded as revenue for the 2009/10 Financial Year. See details at Cash Receipts above.			112 964
			<u>112 964</u>

(Increase) / decrease in Long-term Receivables

Rental on operating lease previously overstated with VAT	24 381	21 387	-2 994
			<u>-2 994</u>

Cash and Cash Equivalents at the beginning of the year

See the notes under 28.7 Reclassification of Statement of Financial Position : 30 June 2010 for details of the restated "Cash and Cash Equivalents".			758 068
			<u>758 068</u>

Cash and Cash Equivalents at the end of the year

See the notes under 28.7 Reclassification of Statement of Financial Position : 30 June 2010 for details of the restated "Cash and Cash Equivalents".			758 068
			<u>758 068</u>

29 CASH GENERATED BY OPERATIONS

Surplus / (Deficit) for the Year	19 419 955	5 333 607
Adjustment for:		
Correction of prior year Error		(736 119)
Depreciation and Amortisation	23 403 182	19 321 715
Loss on Disposal of Property, Plant and Equipment	380 130	-
Gains on Disposal of Property	(407 123)	-
Contribution to Provisions - Non-current	286 459	320 116
Contribution to Impairment Provision	5 587 808	7 707 016
Investment Income	(4 236 044)	(4 388 311)
Finance Costs	135 788	8 292
Operating surplus before working capital changes	<u>44 570 155</u>	<u>27 566 316</u>
(Increase)/Decrease in Inventories	(15 812)	(338 465)
(Increase)/Decrease in Consumer Debtors	(9 180 358)	1 336 040
(Increase)/Decrease in Other Debtors	(17 261 276)	(10 943 411)
Increase/(Decrease) in Creditors	(711 978)	13 787 584
Increase/(Decrease) in Conditional Grants and Receipts	(7 893 925)	9 778 469
Cash generated by / (utilised in) Operations	<u>9 506 805</u>	<u>41 186 533</u>

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011
R

2010
R

30 NON-CASH INVESTING AND FINANCING TRANSACTIONS

The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2010/11 financial year.

31 FINANCING FACILITIES

The municipality has vehicles on finance leases.

31 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term Liabilities	1 546 892	-
Used to finance Property, Plant and Equipment - at cost	(1 546 892)	-
Cash invested for Repayment of Long-term Liabilities	<u>-</u>	<u>-</u>

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Cash has not been set aside to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates but expenditure will be provided for on the annual budget..

32 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

32.1 Unauthorised Expenditure

	Budget	Actual	Over/(Under)
The operational expenditure exceeded approved budgeted expenditure which constitutes unauthorised expenditure.	103 771 215	137 234 341	33 463 126

Depreciation was affected the first time and accordingly R23,4 million was expenced. A government grant of R20 million towards the upgrading of the electricity network in the area was received during the year. An un-budgeted grant for the amount of R3,5 million was received in respect of preparations for the municipal election which was held in May 2011 was received and spend during the year.

No provision for impairment of debtors was made on the budget. With the compellation of the Annual Financial Statements, to comply with GRAP accounting, the provision had been calculated based on the payment percentage which resulted expenditure to the amount of R5 587 808.

If the above amounts are taken into account it calculates to less than 1% overexpenditure on budgeted expenditure. The expenditure will however be presented to Council for condonement.

Reconciliation of Unauthorised Expenditure:

Opening balance	12 739 495	-
Unauthorised Expenditure current year	33 463 126	12 739 495
Approved by Council or condoned	(12 739 495)	-
Unauthorised Expenditure awaiting authorisation	<u>33 463 126</u>	<u>12 739 495</u>

Incident	Disciplinary Steps / Criminal Proceedings
Budgeted amounts exceeded:-	The unauthorised expenditure will be submitted to Council for condonement.

32.2 Fruitless and Wasteful Expenditure

To management's best of knowledge instances of note indicating that Fruitless and Wasteful Expenditure was incurred during the year under review were not revealed.

32.3 Irregular Expenditure

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

Reconciliation of Irregular Expenditure:

Opening balance	1 600 000	-
Irregular Expenditure current year	-	1 600 000
Irregular Expenditure awaiting condonement	<u>1 600 000</u>	<u>1 600 000</u>

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
Incident	Disciplinary Steps / Criminal Proceedings	
<i>Security Contract expired but still being used/paid</i>	<i>Legal advise awaited.</i>	

**33 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL
FINANCE MANAGEMENT ACT**

33.1 Contributions to organised local government - SALGA

Opening Balance	-	73 150
Council Subscriptions	310 555	256 858
Amount Paid - current year	(8 509)	(256 858)
Amount Paid - previous years		(73 150)
Balance Unpaid (included in Creditors)	302 046	-

33.2 Audit Fees

Opening Balance	124 320	-
Current year Audit Fee	2 607 198	2 752 433
Amount Paid - current year	(2 343 333)	(2 628 112)
Amount Paid - previous years	(124 320)	-
Balance Unpaid (included in Creditors)	263 865	124 320

The balance unpaid represents the audit fee for an interim audit conducted during April and May 2011.

33.3 Value Added Tax (VAT)

VAT inputs receivables and VAT outputs receivables are shown in Note 12. All VAT returns have been submitted by the due date throughout the year.

33.4 PAYE and UIF

Opening Balance	458 934	-
Current year Payroll Deductions	6 530 069	4 989 626
Amount Paid - current year	(6 530 069)	(4 530 693)
Amount Paid - previous years	(458 934)	-
Balance Unpaid (included in Creditors)	(0)	458 934

33.5 Pension and Medical Aid Deductions

Opening Balance	436 409	-
Current year Payroll Deductions and Council Contributions	5 861 919	4 634 569
Amount Paid - current year	(5 861 919)	(4 198 160)
Amount Paid - previous years	(436 409)	-
Balance Unpaid (included in Creditors)	-	436 409

33.6 Councillor's arrear Consumer Accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at:

	Total	Outstanding up to 90 days	Outstanding more than 90 days
30 June 2011			
Mbhele N	4 059	423	3 636
Noziqwaba J	6 528	1 163	5 365
Total Councillor Arrear Consumer Accounts	10 587	1 586	9 001
30 June 2010			
Garane A	9 560	1 274	8 286
Mbhele N	3 644	252	3 392
Socikwa S	39 124	772	38 352
Mdzinwa M	5 948	1 434	4 514
Mdzinwa M N	7 026	1 436	5 590
Total Councillor Arrear Consumer Accounts	65 301	5 168	60 133

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011 **2010**
R **R**

33.7 Non-Compliance with Chapter 11 of the Municipal Finance Management Act

33.8 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council during the financial year.

Department	Date	Successful Tenderer	Reason	Amount
Budget & Treasury	14/03/2011	Ducharme Consulting Pty Ltd	SCM Regulation 36	1 298 597.00
	27/05/2011	Bell Equipment Sales Ltd	Organ of State, only	116 950.15
	20/07/2011	Caseware Training	Bell Dealer, Caseware	49 150.00
	17/05/2011	Arch Actuarial	approved Trainer, Arch	14 421.00
	12/04/2011	Alternative Energy	Actuarial continuity,	1 990 604.16
	31/03/2011	Munsoft	Munsoft (Fin.system in use) supplier	2 852.28
6 Occasions during the financial year for various reasons.				3 472 574.59
Corporate Services	09/02/2011	Waltons Stationery	Order not signed by SCM	52 369.50
1 Occasion during the financial year for the reason as indicated.				52 369.50
Community Services	20/09/2010	FG Uniforms	SABS approved	12 306.00
	20/09/2010	Sparks & Ellis	uniforms, SABS	12 306.00
	03/11/2010	Calibration of Speed test machine	approved sole supplier (calibration)	4 552.33
3 Occasions during the financial year for various reasons.				29 164.33

34 COMMITMENTS FOR EXPENDITURE

34.1 Capital Commitments

Commitments in respect of Capital Expenditure:

- Approved and Contracted for:-

Infrastructure

Total Capital Commitments

This expenditure will be financed from:

Government Grants

33 631 874	14 525 990
33 631 874	14 525 990
33 631 874	14 525 990
33 631 874	14 525 990
33 631 874	14 525 990

34.2 Lease Commitments

Finance Lease Liabilities and Non-cancellable Operating Lease Commitments are disclosed in Note 13

35 OPERATING LEASE LIABILITIES / PAYABLES

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. No liability existed at financial year end as none of the contracts has any escalation clauses.

35.1 Leasing Arrangements

The Municipality as Lessee:

The municipality entered into various operating leases over 3 to 5 years during the 2009/10 financial year for the provision of office machines/equipment.

35.2 Amounts payable under Operating Leases

Vehicles and Other Equipment:

Up to 1 year

2 to 5 years

More than 5 years

Total Operating Lease Arrangements

1 052 308	1 566 253
513 945	513 945
538 363	1 052 308
-	-
1 052 308	1 566 253

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
The following payments have been recognised as an expense in the Statement of Financial Performance:		
Minimum lease payments	308 721	210 886
Total Operating Lease Expenses	<u>308 721</u>	<u>210 886</u>

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Office Equipment

No restrictions have been imposed on the municipality in terms of the operating lease agreements.

Standard conditions relevant to the hiring of photocopy machines are applicable.

The Municipality as Lessor:

The Municipality leases out its investment property held under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

Buildings:	971 385	1 778 056
Up to 1 year	808 882	806 671
2 to 5 years	162 503	971 385
More than 5 years	-	-
Total Operating Lease Arrangements	<u>971 385</u>	<u>1 778 056</u>

The following payments have been recognised for rental income and repairs and maintenance expense in the statement of financial performance, as follows:

Rental income	975 337	983 112
---------------	---------	---------

36 FINANCIAL INSTRUMENTS

36.1 Classification

FINANCIAL ASSETS:

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

<u>Financial Assets</u>	<u>Classification</u>		
Consumer Debtors			
Assessment Rates	Loans and receivables	4 741 428	4 117 972
Refuse	Loans and receivables	604 145	1 049 550
Other Debtors	Loans and receivables	9 643 839	2 143 936
Other Debtors			
Payments made in Advance	Loans and receivables	327 566	305 454
Government Subsidy Claims	Loans and receivables	13 144 913	-
Sundry Debtors	Loans and receivables	336 370	327 522
Bank, Cash and Cash Equivalents			
Call Deposits	Held to maturity	26 356 205	78 300 124
Bank Balances	Available for sale	3 254 808	2 398 779
Cash Floats and Advances	Available for sale	4 617	4 855
		<u>58 413 892</u>	<u>88 648 194</u>

SUMMARY OF FINANCIAL ASSETS

Loans and Receivables

Consumer Debtors	Assessment Rates	4 741 428	4 117 972
Consumer Debtors	Refuse	604 145	1 049 550
Consumer Debtors	Loan Instalments	-	-
Consumer Debtors	Other Debtors	9 643 839	2 143 936

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 R	2010 R
Other Debtors	Payments made in Advance	327 566	305 454
Other Debtors	Government Subsidy Claims	13 144 913	-
Other Debtors	Sundry Debtors	336 370	327 522
		<u>28 798 262</u>	<u>7 944 436</u>
Available for Sale:			
Bank Balances and Cash	Bank Balances	3 254 808	2 398 779
Bank Balances and Cash	Cash Floats and Advances	4 617	4 855
Bank Balances and Cash	Call Deposits	26 356 205	78 300 124
		<u>29 615 630</u>	<u>80 703 758</u>
Total Financial Assets		<u>58 413 892</u>	<u>88 648 194</u>

FINANCIAL LIABILITIES:

In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows
(FVTPL = Fair Value through Profit or Loss):

<u>Financial Liabilities</u>	<u>Classification</u>		
Creditors			
Trade Creditors	Financial liabilities at amortised cost	11 361 921	13 115 158
Payments received in Advance	Financial liabilities at amortised cost	481 528	282 706
Retentions	Financial liabilities at amortised cost	114 725	-
Staff Bonuses	Financial liabilities at amortised cost	153 914	102 527
Sundry Deposits	Financial liabilities at amortised cost	58 644	78 270
Other Creditors	Financial liabilities at amortised cost	0	7 000

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:

Creditors	Trade Creditors	11 361 921	13 115 158
Creditors	Payments received in Advance	481 528	282 706
Creditors	Retentions	114 725	-
Creditors	Staff Bonuses	153 914	102 527
Creditors	Sundry Deposits	58 644	78 270
Creditors	Other Creditors	0	7 000
		<u>12 170 732</u>	<u>13 585 661</u>
Total Financial Liabilities		<u>12 170 732</u>	<u>13 585 661</u>

	30 June 2011		30 June 2010	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL ASSETS				
Loans and Receivables	28 798 262	28 798 262	7 944 436	7 944 436
Long-term Receivables	-	-	-	-
Consumer Debtors	14 989 412	14 989 412	7 311 459	7 311 459
Other Debtors	13 808 849	13 808 849	632 976	632 976
Current Portion of Long-term Receivables	-	-	-	-
Available for Sale	29 615 630	29 615 630	80 703 758	80 703 758
Bank Balances and Cash	29 615 630	29 615 630	80 703 758	80 703 758
Total Financial Assets	<u>58 413 892</u>	<u>58 413 892</u>	<u>88 648 194</u>	<u>88 648 194</u>

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011		2010	
	R		R	
	30 June 2011		30 June 2010	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL LIABILITIES				
Designated as FVTPL:	12 170 732	12 170 732	13 585 661	13 585 661
Trade and Other Payables:	12 170 732	12 170 732	13 585 661	13 585 661
- Creditors	12 170 732	12 170 732	13 585 661	13 585 661
Total Financial Liabilities	12 170 732	12 170 732	13 585 661	13 585 661
Total Financial Instruments	46 243 160	46 243 160	75 062 533	75 062 533
Unrecognised Gain / (Loss)		-		-

Loans and Receivables designated as at FVTPL

At the reporting date there are no significant concentrations of credit risk for Loans and Receivables designated at FVTPL. The carrying amount reflected above represents the municipality's maximum exposure to credit risk for such loans and receivables.

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The Fair Value of Financial Assets and Financial Liabilities were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the the current payment ratio's of the municipality's debtors.

36.2 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged.

The capital structure of the municipality consists of debt, which includes Bank, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in the Statement of Changes in Net Assets.

Gearing Ratio

	2011	2010
	R	R
The gearing ratio at the year-end was as follows:		
Debt	-	-
Bank, Cash and Cash Equivalents	29 615 630	80 703 758
Net Debt	29 615 630	80 703 758
Equity	231 493 558	212 073 603
Net debt to equity ratio	12.79%	38.05%

Debt is defined as Long- and Short-term Liabilities.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance.

36.3 Financial Risk Management Objectives

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

36.4 Significant Accounting Policies

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011	2010
R	R

Details of the significant Accounting Policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of Financial Asset, Financial Liability and Equity Instrument are disclosed in the Accounting Policies to the Annual Financial Statements.

36.5 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

36.5.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

36.5.1 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made without consultation with the councillor responsible for financial matters.

Long-term Receivables and Other Debtors are individually evaluated annually at balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The municipality's sensitivity to interest rates has increased during the current period due to the taking up finance leases at prime rate.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

36 FINANCIAL INSTRUMENTS (Continued)

36.7 Effective Interest Rates and Repricing Analysis

In accordance with IFRS 7 .40 the following tables indicate the average effective interest rates of Income-earning Financial Assets and Interest-bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:

30 June 2011

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
VARIABLE RATE INSTRUMENTS								
Short-term Investment Deposits	5		26 356 205	26 356 205	-	-	-	-
Bank Balances and Cash	5		3 259 425	3 259 425	-	-	-	-
Total Fixed Rate Instruments			29 615 630	29 615 630	-	-	-	-

30 June 2010

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
VARIABLE RATE INSTRUMENTS								
Short-term Investment Deposits	5		78 300 124	78 300 124	-	-	-	-
Bank Balances and Cash	5		2 403 634	2 403 634	-	-	-	-
Total Fixed Rate Instruments			80 703 758	80 703 758	-	-	-	-

36.8 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

36.9 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
36 FINANCIAL INSTRUMENTS (Continued)		
36.10 Credit Risk Management		
The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:		
Consumer Debtors	10 247 984	3 193 487
Other Debtors	18 550 278	4 750 949
Bank, Cash and Cash Equivalents	29 615 630	80 703 758
Maximum Credit and Interest Risk Exposure	58 413 892	88 648 194

37 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

Councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

Contributions made by the municipality amounted to R2164044 (2009/10: R2404109) to the defined benefit and defined contribution structures and were expensed as incurred during the year under review.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

DEFINED BENEFIT SCHEMES

Municipal Councillors Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the fund had a funding ratio of 102.56%. (30 June 2006 106.5%). The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

South African Municipal Workers Union National Provident Fund:

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2005.

The statutory valuation performed as at 30 June 2005 revealed that the fund had a funding ratio of 100.0% (30 June 2002: 100,0%). The contribution rate paid by the members (not less than 5,00%) and Council (not less than 12,00%) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Employees Pension Fund

No details could be provided for the fund and of any valuation performed.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2011
R **2010**
R

38 RELATED PARTY TRANSACTIONS

38.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person	Designation	Description of Related Party Relationship
NT Xezu	Councillor	Sizo Projects - Owner
NG Mdzinwa	Councillor	Owner of 2nd World B&B - Spouse of Councillor

Councillors and/or management of the municipality have relationships with municipal employees as indicated below:

Family member	Department	Remuneration	Relationship	Related Party
ClIr SG Mandlana	Community & Citizens Services	459 790	Son	A Mandlana
ClIr AN Garane	Corporate Services	125 673	Daughter	FZ Garane
ClIr Z Ndevu	Budget & Treasury	136 776	Cousin	B Ndevu
ClIr MM Mpepanduku	Council	10 788	Daughter	S Mpepanduku
ClIr MM Mpepanduku	Community & Citizens Services	68 719	Cousin	ZR Mpepanduku
ClIr NM Mlenzana	Special Programmes	459 790	Cousin	LL Mlenzana
ClIr NN Boyce	Community & Citizens Services	68 553	Cousin	GN Boyce
ClIr NN Boyce	Community & Citizens Services	68 719	Cousin	T Boyce
Mr MN Sineke	Community & Citizens Services	64 721	Cousin	S Sineke

38.2 Services rendered to Related Parties

The municipality did not render any services during the year to anyone that can be considered as a related party.

38.3 Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. No loans have been granted to anyone that can be considered as a related party.

38.4 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 22 and 23 respectively, to the Annual Financial Statements.

38.5 Purchases from Related Parties

The municipality did not buy goods from any companies which can be considered to be Related Parties.

The municipality bought goods from the following companies, which are considered to be Related Parties:

Company Name	Related Person	Company Capacity	Municipal Capacity	Purchases for the Year	Purchases for the Year
2ND World B&B	NG Mdzinwa	Spouse	Councillor	19 150	132 240
Sizo Projects	NT Xezu	Owner	Councillor	5 010	
Total Purchases				24 160	132 240

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

UMZIMVUBU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
39 CONTINGENT LIABILITIES		
39.1 Court Proceedings:	17 000 000	240 000
(i) An application was brought by Mbali Rural Developers in the High Court to prevent Umzimvubu Municipality from awarding the food programme contract to any other entity person. Mbali's application is academic as the municipality decided not to award the contract. Mbali are persisting with their application to recover their cost which are opposed by the municipality. Legal council proposed at 30 June 2010 that an amount of R120 000 be disclosed as a contingent liability in lue of legal fees. Mbali Developers actions however have now resulted in a claim against the municipality for R16 000 000 plus legal fees of R200 000. It was resolved that the matter will be resolved through private arbitration.	16 200 000	120 000
(ii) The municipality has been sued for R500 000 by an individual for a wrongfull arrest and detention by a traffic officer. The attorneys representing the municipality estimates the legal cost for the case at R300 000	800 000	120 000
40 CONTINGENT ASSETS		
The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.		
41 IN-KIND DONATIONS AND ASSISTANCE		
The municipality did not receive any In-kind Donations and Assistance during the year under review.		
42 COMPARISON WITH THE BUDGET		
The comparison of the municipality's actual financial performance with that budgeted, is set out in Annexures "E (1) and E (2)".		
43 PRIVATE PUBLIC PARTNERSHIPS		
The municipality was not a party to any Private Public Partnerships during the financial year 2010/11.		
44 EVENTS AFTER THE REPORTING DATE		
No events having financial implications requiring disclosure occurred subsequent to 30 June 2011		
45 COMPARATIVE FIGURES		
The comparative figures were restated where adjustments for prior years was necessary. Details of these restated amounts can be seen in the Correction of Error Note 28		
46 STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED		
At the date of authorisation of these Annual Financial Statements the municipality has not applied the following GRAP standards that have been issued, but are not yet effective:		
- GRAP 18 Segment Reporting - issued March 2005		
- GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009		
- GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers) - issued February 2008		
- GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007		
- GRAP 25 Employee Benefits - issued December 2009		
- GRAP 26 Impairment of Cash-generating Assets - issued March 2009		
- GRAP 103 Heritage Assets - issued July 2008		
- GRAP 104 Financial Instruments - issued October 2009		
Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.		
Management has considered all the GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.		

APPENDIX A
UMZIMVUBU LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2011

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2010	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2011
	R				R	R	R	R
OTHER LOANS								
<u>Vehicle Leased</u>								
Isuzu KB50D LWB S/Cab FMX 914 EC	187 807	Prime	1	21-Jan-16	-	187 807	15 223	172 584
Isuzu KB250D TEQ S/Cab FMX 923 EC	265 351	Prime	2	22-Dec-15	-	265 351	21 508	243 842
Isuzu KB250D TEQ D/Cab FMX 972 EC	328 421	Prime	3	21-Jan-16	-	328 421	26 621	301 800
Chevrolet Aveo 1.6 L FNH 218 EC	137 450	Prime	4	31-Jan-16	-	137 450	9 250	128 200
Chevrolet Aveo 1.6 L FMX 935 EC	152 450	Prime	5	21-Jan-16	-	152 450	12 357	140 093
Chevrolet Aveo 1.6 L FMX 936 EC	152 450	Prime	6	21-Jan-16	-	152 450	12 357	140 093
Chevrolet Aveo 1.6 L FMX 937 EC	152 450	Prime	7	21-Jan-16	-	152 450	12 357	140 093
Chevrolet Aveo 1.6 L FMX 938 EC	152 450	Prime	8	21-Jan-16	-	152 450	12 357	140 093
Chevrolet Aveo 1.6 L FMX 929 EC	152 450	Prime	9	21-Jan-16	-	152 450	152 450	-
Chevrolet Aveo 1.6 L FMX 940 EC	152 450	Prime	10	21-Jan-16	-	152 450	12 357	140 093
Total Other Loans	1 833 729				-	1 833 729	286 837	1 546 892
TOTAL EXTERNAL LOANS	1 833 729				-	1 833 729	286 837	1 546 892

OTHER LOANS:

Vehicle Leases:

Vehicles are leased from Fleetafrica for a period of 5 years with the interest rate linked to the prime overdraft rate.

At the expiry of the leases, the municipality do not have the option to (a) extend or assign the lease for a further period, or (b) repurchase the assets with the sales proceeds refunded to the municipality as a rebate of rentals.

APPENDIX D
UMZIMVUBU LOCAL MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 June 2011

2010 Actual Income	2010 Budgeted Income	2010 Actual Expenditure	2010 Budgeted Expenditure	2010 Surplus/ (Deficit)	Description	2011 Actual Income	2011 Budgeted Income	2011 Actual Expenditure	2011 Budgeted Expenditure	2011 Surplus/ (Deficit)
R	R	R	R	R		R	R	R	R	R
-	-	16 730 677	19 766 923	(16 730 677)	Executive and Council	-	2 800 000	21 441 688	28 397 954	(21 441 688)
78 318 554	80 968 632	48 438 287	15 898 596	29 880 267	Finance and Administration	88 678 530	104 741 226	54 405 747	29 032 554	34 272 783
19 125 708	37 409 983	25 334 288	16 952 641	(6 208 581)	Planning and Development	61 732 535	87 880 848	40 460 963	26 150 935	21 271 572
5 817 886	6 151 716	8 161 408	13 147 370	(2 343 523)	Community and Social Services	6 243 232	6 664 221	20 925 943	20 189 772	(14 682 711)
103 262 147	124 530 331	98 664 660	65 765 530	4 597 488	Sub-Total	156 654 297	202 086 295	137 234 341	103 771 215	19 419 955
-	-	-	-	-	Less: Inter-departmental Charges	-	-	-	-	-
103 262 147	124 530 331	98 664 660	65 765 530	4 597 488	Total	156 654 297	202 086 295	137 234 341	103 771 215	19 419 955

APPENDIX E(1)
UMZIMVUBU LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011

Description	2010/11 Actual	2010/11 Budget	2010/11 Variance	2010/11 Variance	Explanation of Significant Variances greater than 10% versus Budget
REVENUE	R	R	R	%	
Property Rates	6 535 712	8 160 000	(1 624 288)	-24.85	We overbudgeted for rates hoping to get results from the data cleansing project.
Fines	463 311	400 000	63 311	13.66	The implementation of speed cameras resulted in an increase in revenue.
Licences and Permits	6 502	2 767 000	(2 760 498)	0.00	
Income for Agency Services	3 496 436	3 044 427	452 009	12.93	There was more awareness on people from the minicipal jurisdiction and outside hence the increase in revenue.
Government Grants and Subsidies Received	135 120 145	133 259 130	1 861 015	1.38	
Service Charges	1 755 056	1 300 000	455 056	25.93	Our expenditure incresed significantly due to service delivery projects.
Rental of Facilities and Equipment	1 686 833	1 064 974		0.00	
Interest Earned - External Investments	3 362 168	5 000 000	(1 637 832)	-48.71	Our investments decreased a lot due to implementation of Capital Projetcjs.
Other Income	2 947 136	46 290 764	(43 343 628)	0.00	
Gains on Disposal of Property, Plant and Equipment	-	500 000	(500 000)	0.00	
Profit on Sale of Land	407 123	300 000	107 123	26.31	The bidding processes yielded better results snd increase the purchase prices of land.
Total Revenue	156 654 297	202 086 295	(46 053 857)	(22.79)	
EXPENDITURE					
Employee Related Costs	32 050 554	45 941 317	(13 890 763)	-43.34	Some vacant positions were not filled.
Remuneration of Councillors	11 389 093	10 227 345	1 161 748	10.20	Arrival of new councillors after elections and implementation of grade 3 salary scales.
Depreciation and Amortisation	23 403 182	472 986	22 930 196	97.98	Implementation of GRAP 17 and the valuation of fixed assets in terms of the standard.
Impairment Losses	5 587 808	-	5 587 808	100.00	To recalculate the recoverability of debtors in terms of GRAP and make the necessary impairment calculations and adjustments.
Repairs and Maintenance	5 292 660	3 359 264	1 933 396	36.53	IEC grant that was not budgeted for increased repairs and maintenance of streets.
Finance Costs	135 788	-	135 788	100.00	Finance leases taken up for vehicles.
General Expenses	58 995 126	43 405 303	15 589 823	26.43	Electrification programme that was initially budgeted for as capital but was expensed due to the nature of grant. The electrification does not become a Municipal asset so we could not capitalise the money transferred to Eskom.
Bad Debts	-	365 000	(365 000)	0.00	The Municipality conducted a data cleansing project and the results are yet to be implemented, hence no write off was made.
Total Expenditure	137 234 341	103 771 215	33 463 126	32.25	
NET SURPLUS / (DEFICIT) FOR THE YEAR	19 419 955	98 315 080	(78 895 125)	80.25	

APPENDIX E(2)
UMZIMVUBU LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2011

Description	2010/11	2010/11	2010/11	2010/11	2010/11	2010/11	Explanation of Significant Variances greater than 5% versus Budget
	Actual	Under Construction	Total Additions	Budget	Variance	Variance	
	R	R	R	R	R	%	
Executive and Council	-		-	555 000	(555 000)	(100.00)	Change of Council due to municipal elections. Change of plans accordingly.
Finance and Administration	458 437		458 437	3 474 513	(3 016 076)	(86.81)	Delays in procurement process on systems to be introduced.
Planning and Development	111 714	4 205 592	4 317 306	90 927 472	(86 610 166)	(95.25)	Budget reflects Infrastructure, LED, Special Programmes whereas different GFS functions are applicable.
Health	-	-	-	-	-	0.00	
Community and Social Services	3 182 854	-	3 182 854	3 358 095	(175 241)	(5.22)	
Waste Management	521 689	-	521 689	-	521 689	0.00	No sepperate cost centre for Waste Management hence no budget. Created a cost centre for Waste Management for 2011/12.
Waste Water Management				-	-	0.00	
Roads and Transport	27 436 099	30 892 336	58 328 435	-	58 328 435	0.00	Budget included in Planning and Development.
Total	31 710 794	35 097 927	66 808 721	98 315 080	(31 506 359)	(32.05)	

Grants and Subsidies Received

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts					Quarterly Expenditure					Compliance to Revenue Act (*) See below	Reason for Non-compliance
		June	Sept	Dec	March	June	June	Sept	Dec	March	June	Yes / No	
FMG	Nat Treasury	1 200 000					229 650	124 411	423 406	238 837		Yes	
MIG Projects	MIG	9 000 000	5 000 000		2 939 000		903 585	8 532 601	8 316 336	17 650 531		Yes	
Health - Clinics	Province											Yes	
Equitable Share	Nat Treasury	29 767 628	23 814 102		17 860 577							Yes	
Dedea	Province						239 805	806 415	303 221	744 040		Yes	
Local District Municipality	LDM											Yes	
Electrification Project	DME				20 000 000				20 000 000			Yes	
MSP & MSIG	Province		1 000 000				266 200	430 288	457 562	510 951		Yes	
Sport & Recreation	Province								\$			Yes	
									\$				
Total Grants and Subsidies Received		39 967 628	29 814 102	0	40 799 577	0	1 639 240	9 893 715	29 500 525	19 144 359	0		